Hiram Walker Resources Ltd.

Annual Report 1981

Corporate profile

Hiram Walker Resources Ltd. (referred to as the Company in this report) is a holding company that owns Hiram Walker-Gooderham & Worts Limited (Hiram Walker), Home Oil Company Limited (Home) and The Consumers' Gas Company Ltd. (Consumers') with assets of $4.9 billion, and revenues of $2.9 billion. Hiram Walker Resources is one of the largest publicly traded companies in Canada.

Hiram Walker is one of the world's largest distillers with products being manufactured in Canada, the United States, Scotland, France, Mexico and Argentina, and marketed throughout the world. Some of Hiram Walker's principal brand names are Canadian Club Whisky, Ballantine's Scotch Whisky, Kahlua Liqueur and Courvoisier Cognac. Home is engaged in the exploration for and production of oil and natural gas primarily in Canada and the United States, and also in Australia, Guyana, and other areas. Consumers' is a major Canadian gas distribution utility, serving approximately 678,000 residential, commercial and industrial customers in central and eastern Ontario, western Quebec and northern New York State.

The common shares of the Company are listed on major Canadian stock exchanges and on the New York Stock Exchange. At September 30, 1981, the Company had 69,207,872 common shares, and 13,884,351 voting preference shares outstanding, held by 61,119 shareholders. The Company, which is incorporated under the laws of the Province of Ontario, maintains executive offices in Toronto, Ontario. The Company employs 11,430 people.

Contents

Annual meeting

The Annual and General Meeting of Shareholders of Hiram Walker Resources Ltd. will be held in the Canadian Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario, on Wednesday, February 3, 1982, at 11 a.m.

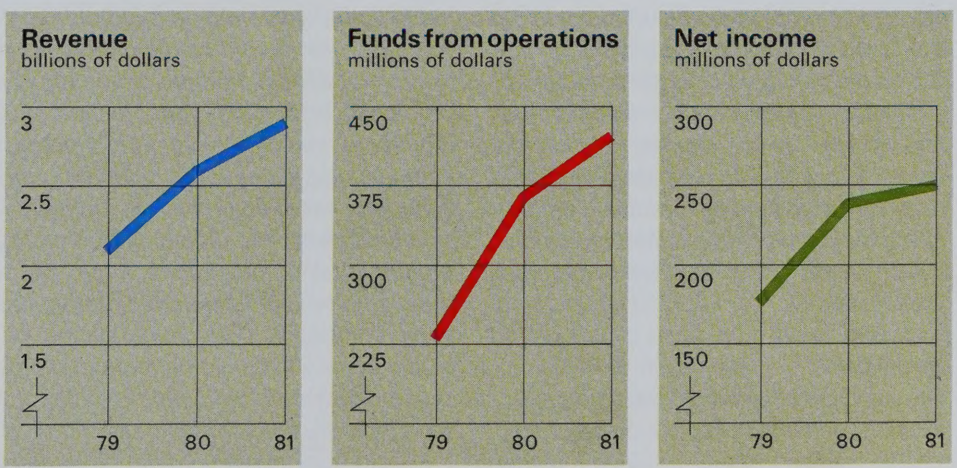
The year in brief

Financial

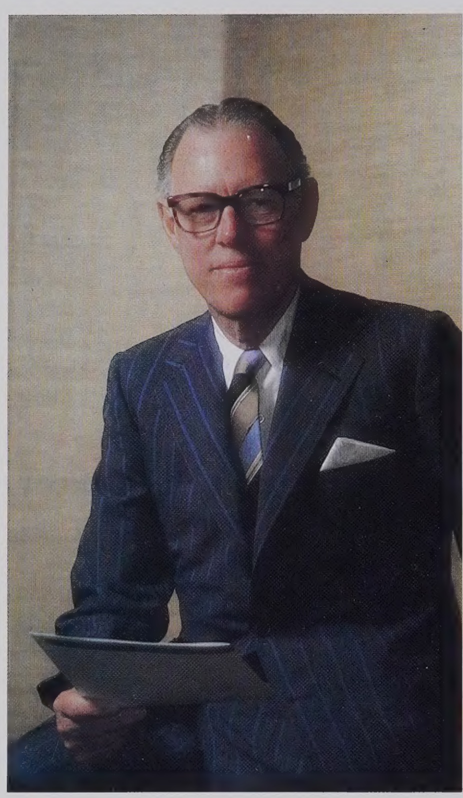
	1981	1980	1979
	(Expressed in millions except per share amounts)		
Net income	**$ 250.1**	$ 239.5	$ 177.2
per common share	**$3.23**	$3.18	$2.56
per common share fully diluted	**$3.02**	$3.01	$2.52
Dividends per common share	**$1.32**	$1.32	$0.88
Funds from operations	**$ 421.6**	$ 364.8	$ 231.1
Revenue	**$2,945.3**	$2,563.4	$2,144.2
Assets	**$4,918.2**	$3,610.7	$2,447.4

Operating

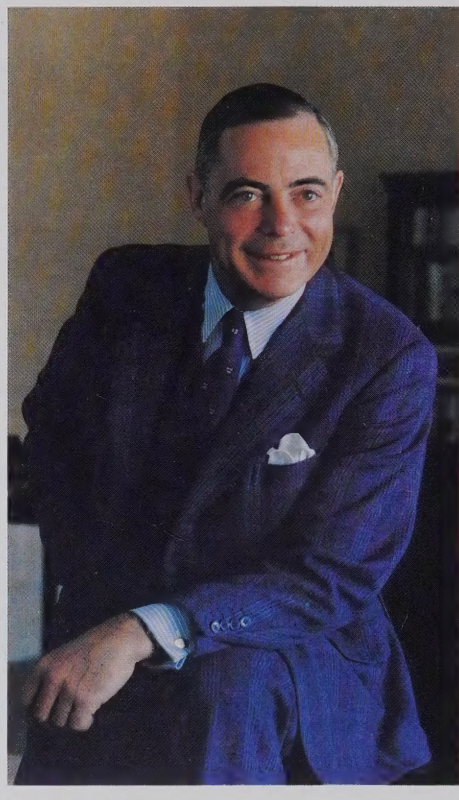
	1981	1980	1979
Distilled spirits			
Gross revenue less excise taxes and import duties (millions of dollars)	**$ 1,068**	$ 1,008	$ 905
Natural resources			
Crude oil and liquids production (barrels per day)	**32,370**	31,053	30,863
Natural gas sales (millions of cubic feet per day)	**165.8**	129.9	136.3
Gas utility			
Volume of gas sold (billions of cubic feet)	**296.9**	286.1	303.6
Number of active customers	**678,279**	630,747	588,178



To the shareholders



H. Clifford Hatch



W. P. Wilder

The year 1981 was the first full year of combined operations of the Company. The year produced satisfactory financial results, despite depressed economic conditions in many countries around the world. Initial steps were taken to expand the natural resource segment of the Company's business, leading to a substantial acquisition of oil and gas properties in the United States. During the year, the Company also streamlined its corporate structure by creating a holding company, Hiram Walker Resources Ltd., which now owns its three principal businesses.

Financial

Net income, before provision for preference share dividends, increased from $239.5 million in 1980 to $250.1 million in 1981. The results of 1981 included a non-recurring tax benefit related to stock appreciation relief in the United Kingdom, amounting to $37.0 million, and a foreign currency translation gain amounting to $24.5 million. After adjusting for these items, net income would have been $188.6 million in 1981 compared with $244.7 million in 1980. The major reasons for this result were the adverse effects of The National Energy Program in Canada, reduced mining income due to both lower prices and ore grades, higher borrowing costs, and the impact of the acquisition of oil and gas properties from the Davis Oil Company which, as stated at last year's annual meeting, was expected to have a dilutive impact on income. In the distilled spirits segment, generally higher selling prices for principal brands offset a decline in sales volumes. The gas utility benefited from additional customers, a rate increase, and weather which was slightly colder than last year, though normal when compared with historical averages.

Funds from operations in 1981 were $421.6 million, revenues $2.9 billion and assets $4.9 billion. Comparable figures for 1980 were $364.8 million, $2.6 billion, and $3.6 billion. Earnings for 1981 are not directly comparable to those of 1980 as the results of Home Oil Company Limited were only consolidated for nine months in 1980. Dividends for the period were $1.32 per common share, the same level as paid in 1980.

Energy

Significant steps were taken in 1981 to redirect the activities of the natural resource segment in order to minimize the negative impact of government policy on the oil industry in Canada. Exploration in Canada was curtailed to match the substantially reduced amount of money received for oil and gas production from existing reserves. Activities outside Canada were accelerated, particularly in the United States, where the acquisition of oil and gas properties from Davis Oil has increased both the production base and land holdings to the point where the Company is now the largest Canadian holder of United States exploration and production acreage with 1.8 million net acres. An appreciation for the magnitude of these initiatives is revealed by examining the change in the asset mix of the Company. Of the Company's total assets, 43 per cent are now in natural resources, 31 per cent in distilled spirits and 26 per cent in gas utility. A year earlier, 30 per cent were in natural resources, 40 per cent in distilled spirits and 30 per cent in gas utility. The natural resource assets are about evenly split between Canada and the United States.

Increased efforts on the international exploration scene during the year resulted in an oil discovery in Australia. Though the size of the reserves discovered can only be determined by additional drilling, the Company expects initial production from the field to begin in late 1982, or early 1983.

Organization

Following the approval to reorganize the Company under Hiram Walker Resources Ltd., Consumers' will be able to finance its expansion on an appropriate basis for a utility. Plans were announced to offer for sale to the public 10 to 15 per cent of the common shares of The Consumers' Gas Company Ltd. The timing of the financing will depend upon improved

equity markets in Canada. The financing will enable the public to invest directly in Consumers', a company engaged solely in business as a gas utility.

In securing approval for the reorganization, the Company and the Government of Ontario agreed to the creation of a Board of Directors for Consumers' which would have a degree of independence from the parent company and represent the communities served by the utility. Provision has been made, therefore, for a 14-member Board. Of the 14 directors, five will sit on both the Consumers' and Hiram Walker Resources' boards, and seven, because of their long association with Consumers', have agreed to act as independent directors. Two new directors will be added. The Chairman, Deputy Chairman and President are W. P. Wilder, Noah Torno and R. W. Martin, respectively.

Financing

During the year, the Company was active in Canadian and European financial markets, raising the equivalent of $520 million in Canadian funds through seven debt issues to September 30, 1981. Proceeds from these funds, which bear interest at rates ranging from 7¾ to 18½ per cent, principally with five year terms, were used to reduce loans under a revolving credit agreement associated with the oil and gas property acquisition in the United States and to reduce bank borrowings in Canada. In addition to these debt financings, the Company raised $100 million through the issue of 9½ per cent preference shares, convertible into common shares of the Company. Subsequent to September 30, 1981, a further $50 million was raised through the issue of 14.16 per cent preference shares and $144 million through two debt issues. Additional financings will be undertaken to replace floating rate debt with fixed rate debt as market conditions permit.

Outlook

Against an economic environment characterized by high interest rates, inflation and low real growth, it will be difficult to attain the income levels achieved in 1981. The year 1982 will reflect the continuing effect of The National Energy Program, the impact of a full year's operation of the properties acquired from Davis Oil, the absence of the non-recurring tax benefit in 1981, as well as the uncertainty of the effects of foreign currency translation rates.

Looking beyond 1982 Hiram Walker is nearing the end of a major capital spending program that will provide this segment with modern and efficient plant and distribution systems to serve all its principal markets. Continued and steady progress is forecast with the expectation of above average performance when economic conditions improve.

The natural resource segment, in the face of The National Energy Program, has expanded outside Canada where opportunities for substantial growth in the years ahead are still available.

The gas utility is positioned to serve the large and growing central Canadian market and has access to abundant and secure supplies of natural gas. The revenue of this segment will increase in 1982 as the result of an interim rate increase granted by the Ontario Energy Board on October 7, 1981. Consumers' had requested an increase in its return on common equity to 18 per cent from the present level of 14.25 per cent. In the interim decision, the Board provided for a return on common equity of 15 per cent, with a final decision expected in December, 1981.

Corporate

At the February 3 annual meeting, shareholders will be asked to authorize a reduction in the size of the Company's Board of Directors to 18 members from 30 at present.

Four directors, Senator Harry W. Hays, Joseph Jeffery, Beryl A. Plumptre and A. Ross Poyntz, are retiring. Senator Hays, who resides in Calgary, had been a Director of Home for 10 years where he served as a member of the audit committee, and on becoming a Director of the Company, also served on the audit committee. Mr. Jeffery, who resides in London, Ontario, has been a Director of Hiram Walker since 1959, and served on the Company's Board as a member of the audit committee. Mrs. Plumptre, of Ottawa, served on the pension committee, and had been a member of the Consumers' Board since 1976. Mr. Poyntz, who resides in Toronto, was first elected to the Consumers' Board in 1953. He served as a member of the executive and audit committees and, on becoming a Director of the Company, served as a member of the audit committee. In addition to the retiring directors, Robert J. Tebbs will not stand for re-election to the Board. Mr. Tebbs retired during the year as Senior Vice President of Hiram Walker. The Board is indebted to these directors for the valuable contribution they have made over the years. It extends its appreciation for their advice and counsel.

The Board welcomes Richard F. Haskayne who will be appointed President and Chief Executive Officer of Home and Executive Vice President of the Company effective January 1, 1982, and nominated to the Board of the Company. Mr. Haskayne, 46, has spent his entire career in the energy business, principally with Hudson's Bay Oil and Gas Company Limited of Calgary, where he has resigned as president to accept the appointment with Home. Mr. Haskayne replaces A. M. McIntosh who resigned on October 7.

The Board extends its appreciation to the 11,430 employees who serve the Company around the world.

Submitted on behalf of the Board of Directors:

H. Clifford Hatch
Chairman of the Board

W. P. Wilder
President and Chief Executive Officer

November 18, 1981

Hiram Walker markets more than 100 of its own brands worldwide and acts as marketing agent for a number of well-known international brands.

Financial highlights
millions of dollars

	1981	1980
Operating Revenue	**$1,434.9**	$1,417.2
Operating Income	**$ 263.1**	$ 250.9
Funds From Operations	**$ 211.5**	$ 198.0
Assets	**$1,540.3**	$1,440.0
Capital Expenditures	**$ 84.9**	$ 51.5

Principal Officers
Hiram Walker-Gooderham & Worts Limited

A. E. Downing, President
H. Clifford Hatch, Jr., Vice President
J. P. Ferguson, Vice President and Treasurer
J. A. Giffen, Vice President
I. M. Wilson-Smith, Vice President

Highlights

Depressed economic conditions in most major markets served around the world resulted in a decline in sales volumes in the distilled spirits segment during the year which was offset by generally higher selling prices for principal brands. During the past two years, Hiram Walker has embarked on a substantial capital spending program to restructure its plant and distribution facilities. With the completion of the major portion of this program in 1982, capital expenditures will return to more normal levels, and the distiller will be in an exceptionally strong position to participate in above average growth when economic conditions in world markets improve.

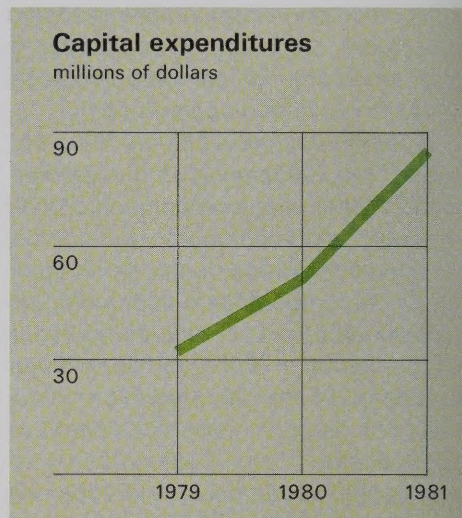
Marketing

Hiram Walker markets more than 100 of its own brands around the world, and acts as a marketing agent for a number of well-known international brands. The United States remains the most important market, accounting for about 58 per cent of sales by volume, but international markets, particularly Europe, are increasing in importance and account for 26 per cent. Sales in Canada account for the remaining 16 per cent.

United States

Over the past decade a substantial shift has taken place in the tastes of drinkers in the United States. Whisky's share of the distilled spirits market has decreased – from 65 to 49 per cent – while non-whiskies, particularly vodka, rum and liqueurs, have increased – from 35 to 51 per cent.

Hiram Walker has been well positioned to take advantage of this trend. Domestic liqueurs, marketed under the Hiram Walker name, are the largest selling line in the United States. Kahlua is the largest selling imported liqueur, with strong representation also provided by Drambuie and Tia Maria. As a result of a 12 per cent investment interest in the Bacardi group of companies, Hiram Walker has participated in the growth of the rum market with the world's largest selling brand. Excellent strength is held in the cognac market with Courvoisier.



The distilled spirits segment is nearing the end of a major capital spending program that will provide modern and efficient plant and distribution systems to serve all its principal markets.

Canadian whisky sales in the United States have not suffered to the same extent as bourbons and blends and, as a result, Canadian Club still ranks among the top five brands of all spirits sold in that country.

The industry in the United States expects a continuation of stiff price competition in lower priced brands, particularly in the gin, vodka and straight and blended whisky categories. However, premium priced products, with a recognized image such as Hiram Walker's, should maintain or better their market share.

Canada

Over the past few years, the distilled spirits market as a whole has been stronger in Canada than in the United States but recently has shown signs of slowing down. The future is also somewhat uncertain as the Federal government moves to increase the excise tax annually in line with the rate of increase in the beverage alcohol component of the Consumer Price Index. Premium products such as Canadian Club, the largest selling brand in Canada, should register modest gains. Ballantine's is the second largest selling Scotch and Kahlua the largest selling liqueur. Hiram Walker looks for a strong performance from these brands.

Principal Brands

Canada

Canadian Whiskies
Canadian Club
Special Old
Gooderham's Bonded Stock

Imported Scotch Whiskies
Ballantine's
Lauder's

Liqueurs
Hiram Walker's

Imported Liqueurs
Drambuie
Tia Maria
Kahlua
Venetian Cream

Cognac
Courvoisier

London Dry Gins
Hiram Walker's Crystal
Ballantine's (Imported)

Vodkas
Skol
Hiram Walker's Crystal

Rums
Government House

Imported Wines
J. Moreau et Fils (France)
Langenbach and Company (Germany)
Tarride Ledroit & Cie (France)

United States

Imported Canadian Whiskies
Canadian Club
Gooderham's Rich & Rare

Imported Scotch Whiskies
Ballantine's
Lauder's
Old Smuggler

Straight Bourbon Whiskeys
Walker's DeLuxe
Ten High

American Blended Whiskey
Imperial

Tequila
Two Fingers

London Dry Gin
Hiram Walker's Crystal Palace
Booth's High & Dry

Vodka
Hiram Walker's Crystal Palace

Cordials and Fruit Flavored Brandies
Hiram Walker's

Cognacs
Courvoisier
Salignac

Imported Liqueurs
Drambuie
Tia Maria
Kahlua
Venetian Cream

Imported Fine Wines
Those represented by Frederick Wildman & Sons, Limited

International

In international markets, two products with the greatest potential are Scotch Whisky and Cognac. Hiram Walker is strongly represented with Ballantine's and Courvoisier.

Outside North America, Ballantine's is the number two selling Scotch in the world. In addition, Ballantine's 12 Years Old is doing exceptionally well as a premium brand in European markets. Gains are also expected in Courvoisier sales, with added impetus provided by an improvement in the European economy.

Manufacturing

Hiram Walker carries on its distilling, maturing, blending, and bottling operations at fully integrated plants in Canada, the United Kingdom and Argentina. The major facilities are located in Walkerville and Corbyville, both in Ontario; Kelowna, British Columbia; Dumbarton, Scotland and Buenos Aires, Argentina. The combined daily capacity of Hiram Walker's distilleries in all countries is approximately 280,000 U.S. proof gallons. In addition, Hiram Walker matures, blends and bottles cognac at Jarnac and Cognac, France, manufactures Kahlua at Mexico City and operates a blending and bottling plant at Burlingame, California. Total daily bottling capacity at these facilities is approximately 117,000 cases.

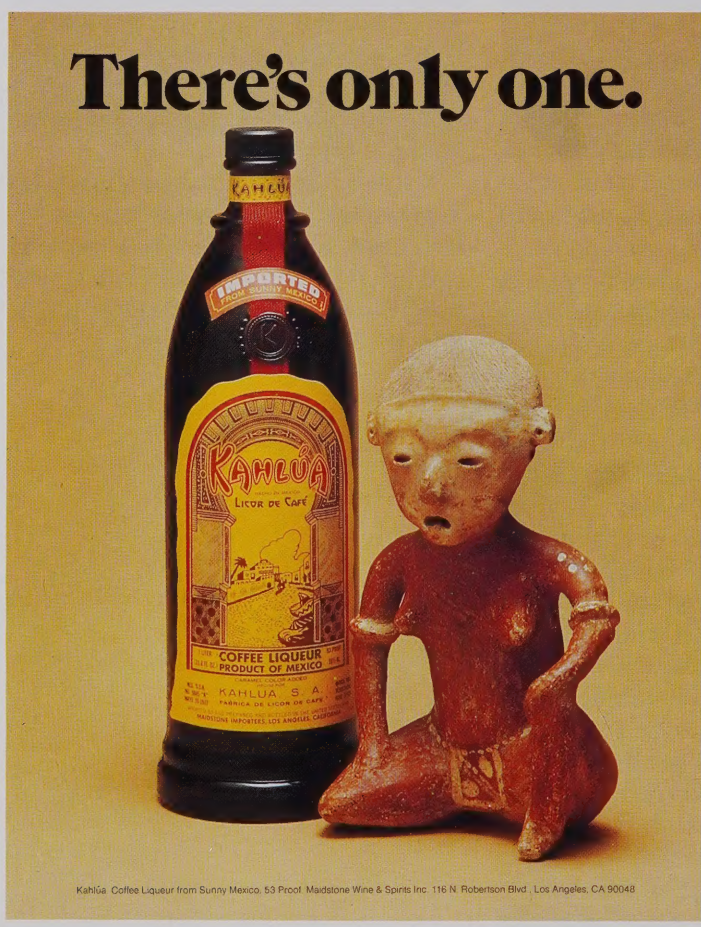
A significant portion of the capital spending program was directed to the United States where Hiram Walker is completing a major restructuring of its facilities to respond to the market preference for the increased consumption of white goods and liqueurs, and decreased consumption of brown goods.

Late in the year, construction was substantially completed on a plant at Fort Smith, Arkansas, to blend and bottle liqueurs. Built at a cost of $70 million, with a daily capacity of 6,500 cases, the new plant will enable Hiram Walker to keep pace with the growing liqueur market. It will also reduce the unit costs of bottling and blending products, and result in the more efficient servicing of markets.

With the essential completion of the Fort Smith plant, the liqueur bottling and blending plant that formed part of the fully-integrated facility at Peoria, Illinois, was closed. The distillery portion of the Peoria facility was sold in 1980, with the result that Hiram Walker no longer distills in the United States but contracts with independent distillers for the distillation and aging of whiskies in accordance with Hiram Walker specifications. Significant cost savings are being achieved with this new method of operation.

Substantial capital expenditures are also being made in Scotland where the construction of a $90 million bottling plant at Dumbarton is due for completion in 1982. The plant will provide Hiram Walker with the most efficient blending and bottling facility in the Scotch whisky industry, with sufficient capacity to meet projected requirements. The plant will also reduce dependence on outside bottlers.

No major capital expenditures for plant improvement were made in Canada. The distilleries in Walkerville and Kelowna are both modern, up-to-date plants with facilities to meet projected market growth over the medium term.



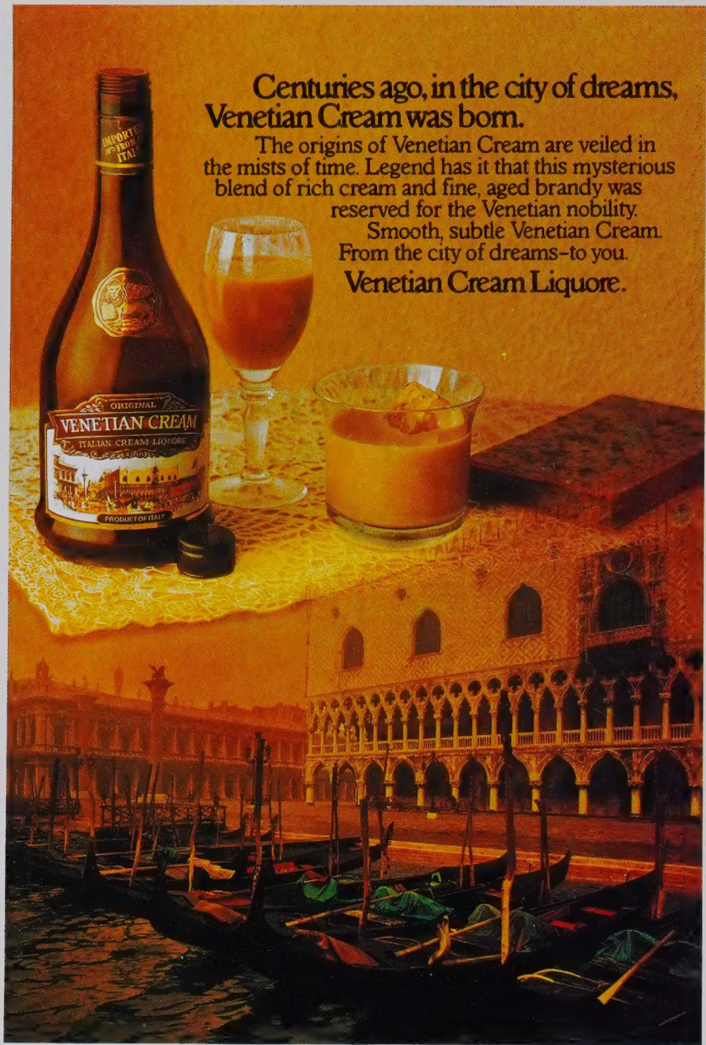
The historical roots of Canadian Club are featured in this advertisement (opposite page) appearing in print publications in the United States. Canadian Club ranks among the top five brands of all spirits sold in the United States. Hiram Walker maintains its position as a leading seller of liqueurs through the regular introduction of new products such as Amaretto and Cognac (above left). Kahlua (lower left) is the largest selling imported liqueur in the United States and Canada. Exceptional strength is held in the cognac market worldwide with Courvoisier (above).

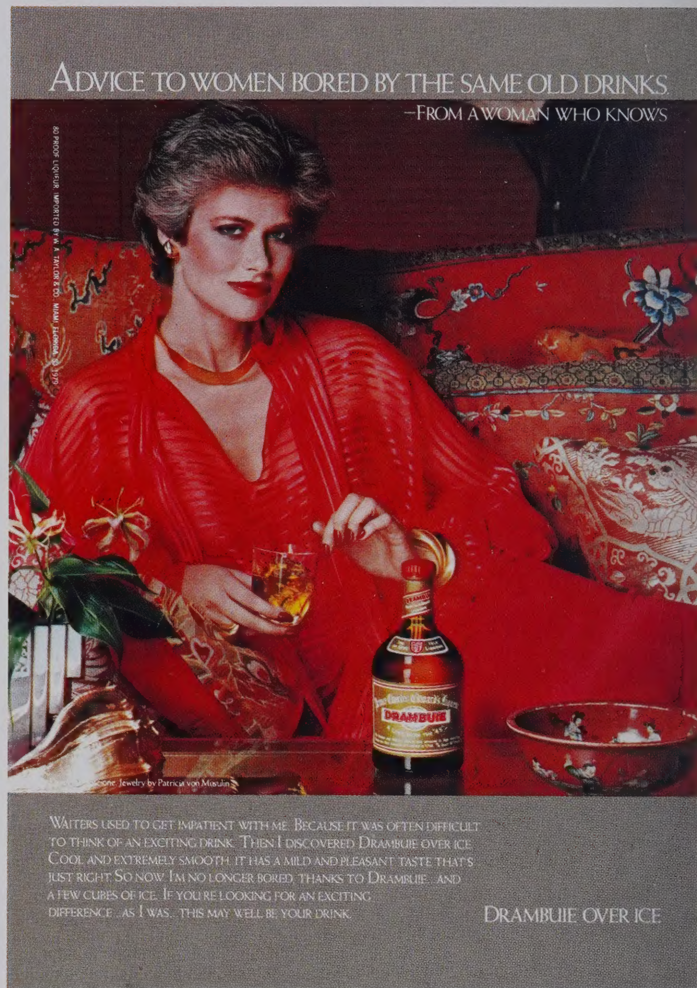
Hiram Walker's unique, light-tasting whisky earned its reputation as the finest whisky in exclusive clubs from the time it first appeared. That's how it became "Club Whisky."

In 1891, a new U.S. law required the country of origin to appear prominently on a product's label. Hiram Walker proudly added *"Canadian"* to Club Whisky and people just as proudly began ordering *"Canadian* Club."

Today people enjoy Canadian Club so many ways: on the rocks, smoothing out sours or Manhattans and with favorite mixers. Because it's lighter than Scotch, smoother than bourbon. And it's still "The Best In The House"® in 87 lands.

"*Canadian Club*"®





Ballantine's is the second best selling Scotch in Canada. Ballantine's Twelve Years Old (opposite page) is receiving increased acceptance as a premium Scotch, particularly in international markets. Tia Maria (lower left) is one of the most important brands marketed in Canada and the United States by Hiram Walker as an agent for another company. Venetian Cream (upper left) was introduced in United States and Canadian markets in 1981. Drambuie (above) continues as one of the world's most widely accepted liqueurs.

For those moments. . . The Scotch.

A distinctive whisky, aged in oak casks for 12 years.
The Scotch to please the most discriminating taste.

Ballantine's
TWELVE 12 YEARS OLD

An expansion of Home's international exploration activities in 1981 led to an oil discovery in Australia.

Financial highlights
millions of dollars

	1981	1980*
Operating Revenue	**$ 349.4**	$ 231.3
Operating Income	**$ 82.9**	$ 92.1
Funds From Operations	**$ 149.2**	$ 112.5
Assets	**$2,076.3**	$1,100.4
Capital Expenditures	**$ 222.8**	$ 146.1

*See note 2, page 28

Principal Officers
Home Oil Company Limited

Richard F. Haskayne,* President and Chief Executive Officer
W. H. Waddell, Senior Vice President Exploration and Production
R. L. Billings, Executive Vice President and Chief Operating Officer, Home Petroleum Corporation
D. L. Headstream, Executive Vice President and General Manager, HPC, Inc.
*Effective January 1, 1982

Highlights

As the result of steps taken during the year, the natural resource segment has positioned itself to minimize the adverse impact of Canada's National Energy Program on the Company. This was achieved by curtailing activities in Canada to match the decreased cash flow from increased taxes, and by expanding outside the country, principally in the United States, and also internationally.

Drilling

During 1981, Home participated in the drilling of 307 exploratory and development wells worldwide, compared with 328 in 1980, which resulted in 48 net oil wells and 23 net gas wells. Drilling in Canada dropped to 192 wells, versus 266 a year earlier. Drilling outside Canada increased substantially, from 60 to 108 wells in the United States, and from two to seven wells in other countries.

International

A major expansion of exploration and development activities was initiated following an oil discovery in the Canning Basin of Western Australia. (See map page 11.)

Preliminary test results of the Blina No. 1 discovery well, drilled on EP-129, flowed high quality crude oil to the surface from two separate intervals. The find is significant because it is the first oil discovery in Australia from rocks of the Devonian age and likely will generate increased industry exploration for oil in similarly aged rock in the Canning Basin and other areas of the country. Home has a 27½ per cent interest in the discovery permit, which consists of about 700,000 acres, and is acting as the operator for a group of four companies.

The first of a number of step out wells to delineate the size of the reserves discovered was drilled just over one-half mile northwest of the discovery and encountered oil in the same two intervals. A second step out well began drilling on November 21. The beginning of the rainy season in late 1981 will force the suspension of drilling until March. However, the rainy season will not hinder plans to place the lower interval of the

Land holdings
acres (net)

	1981	1980
Canada	**4,296,114**	4,391,289
United States	**1,840,239**	1,327,516
International	**3,369,656**	1,435,007
Total	**9,506,009**	7,153,812

Home holds 9.5 million net acres of exploratory and development acreage worldwide. A detailed description of these holdings is provided on page 44.

discovery well, and possibly the upper interval of the step out well, on extended production tests. The oil produced will be trucked to a refinery at Perth utilizing an all-weather road.

With the discovery, Home moved to strengthen its land holdings in the Canning Basin by taking a 25 per cent interest, still subject to formal signing, in WA-117P, a 4,700,000 gross acre permit which is an offshore extension of the Canning Basin. Two wells will be drilled on this permit. This offshore acreage, coupled with EP-129, increases net holdings in the Canning Basin to 1,366,417 acres and provides an exceptional land position on which to pursue exploration.

In addition to the Canning Basin, Home holds a net interest of 80,640 acres on permit NT/P2 situated in waters off northern Australia. A well could be drilled on this permit in 1982, the fourth in which Home has participated since 1978.

Further exploration opportunities in Australia and southeast Asia are being actively pursued.

A two per cent interest is held in a drilling program in the Malacca Strait offshore Indonesia. During the year, drilling resulted in a second oil discovery that tested at rates of 12,017 barrels per day. In addition, two wells were drilled to delineate a discovery made in 1980. The 1980 discovery, coupled with the two delineation wells, tested at a combined flow rate of 28,000 barrels per day. Further delineation drilling will be

Home holds 1.4 million net acres of exploratory land in Australia, including EP – 129 where the Blina No. 1 oil discovery is located. Holdings in Australia include 1,175,000 net acres subject to formal signing. A description of landholdings is provided on page 44.

carried out on both discoveries.

In November, drilling began on the first of two possible exploratory wells on a 1.9 million gross acre concession in the Takutu Basin of Guyana. (See map page 13.) Home is the operator with a 72 per cent interest.

United States

During the year, Home expanded its presence in the United States through growth and acquisition. The acquisition of properties from Davis Oil, in addition to increasing production, has made Home the largest Canadian owner of exploration and production acreage in that country with 1.8 million net acres.

The Davis properties, purchased on March 11, 1981, for approximately $737 million, are located primarily in the states of Wyoming, Oklahoma, Louisiana and Texas and consist of approximately 767,000 gross (270,000 net) acres, and include interests in approximately 830 gross (190 net) oil and gas wells. Gross proved and probable reserves, before the deduction of royalty interests, were estimated at the time of the acquisition at 22.1 million barrels of oil and 173.4 billion cubic feet of gas. Since the acquisition, net daily average production rates, after royalties, have been 2,768 barrels of oil and 29.1 million cubic feet of gas. The extra time required to effect the transfer of the properties has slowed development drilling. Production levels are expected to increase as a result of planned development drilling.

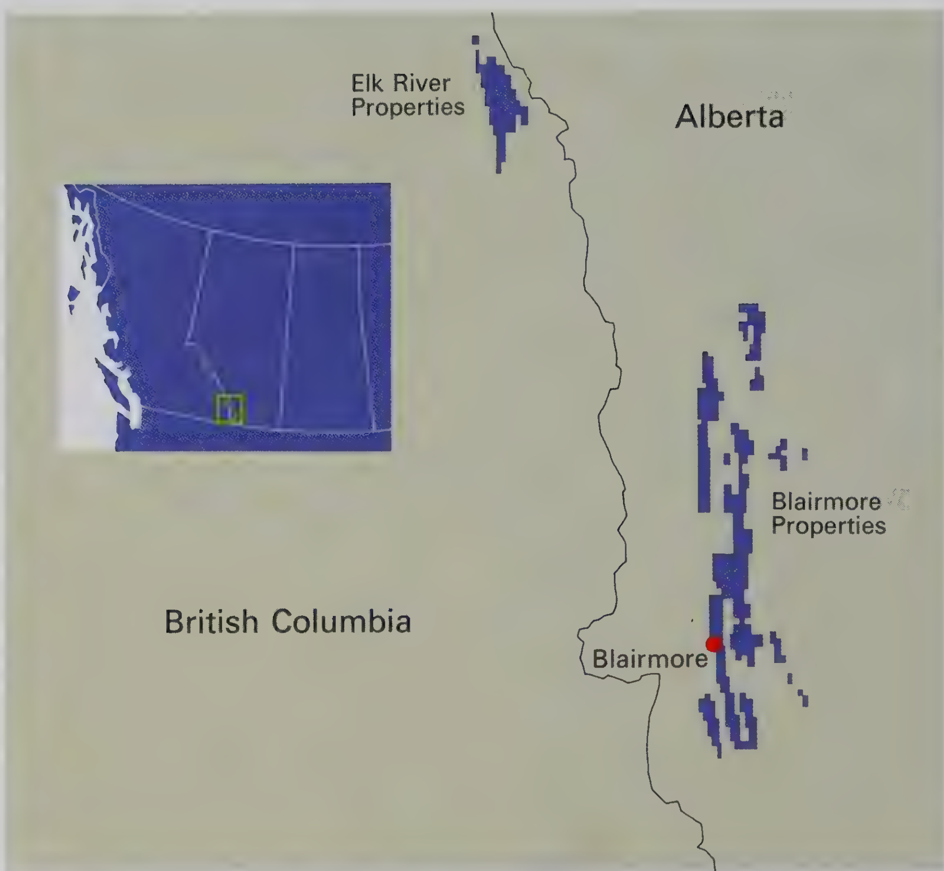
The most significant United States exploration success of the year was at the Atchafalaya Bay well in Louisiana. The well production tested at 1,571 barrels of oil per day and was placed on production August 17 at a rate of about 1,000 barrels per day, close to the maximum allowed. Home has a 100 per cent interest in this well until drilling costs are recouped at which point the interest is reduced to 62.5 per cent.

Production commenced during the year from the N. E. Chevron and High Island fields, both of which are located in the Gulf of Mexico. Production from the N. E. Chevron field at the end of the year was running at nine million cubic feet of gas per day and 250 barrels of condensate per day. By 1983, production rates, net to Home, from the High Island field are expected to reach four million cubic feet of gas per day and 200 barrels of oil and condensate per day.

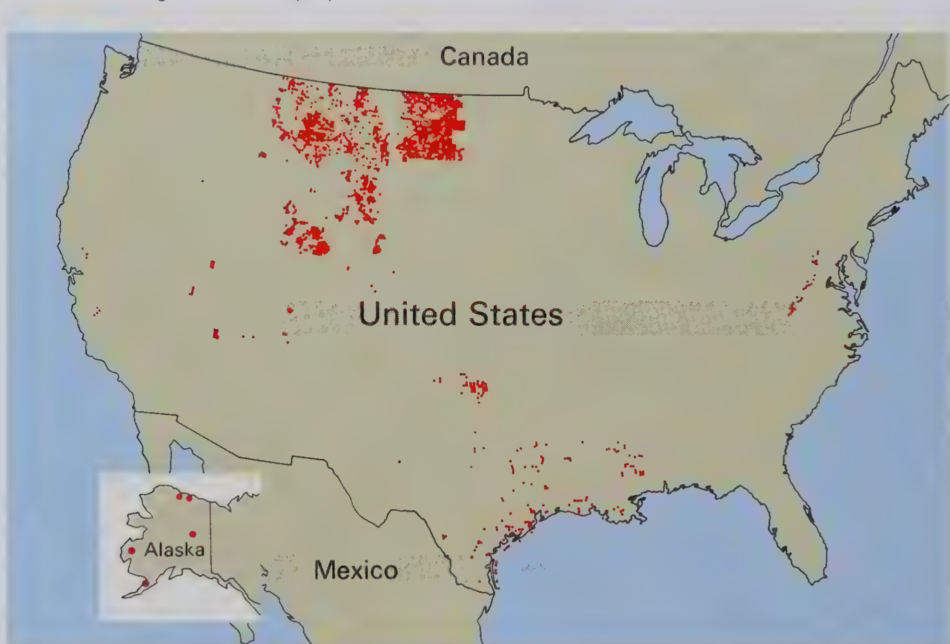
Canada

Although exploratory drilling in Canada decreased as a result of The National Energy Program, Home participated in a number of significant discoveries.

Among them was the Home et al Sinclair well in northeastern Alberta that tested gas at the rate of 9.7 million cubic feet per day. A 25 per cent interest is held in this well. A 35 per cent interest is held in the Shell Home Waterton well in the southern Alberta foothills that is expected to add to gas reserves from this area. In west central Alberta, a 16



Home's most significant coal properties are located in Alberta and British Columbia.



Home is the largest Canadian holder of exploratory and producing acreage in the United States with 1.8 million net acres.

per cent interest is held in the Amoco et al Steep well that flowed gas at the rate of 24 million cubic feet per day.

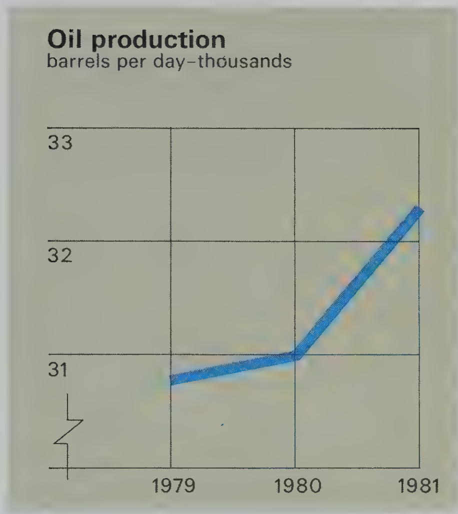
Three wells are expected to be drilled in 1982 on Canadian frontier lands where Home has interests. One well could be drilled on the Gander Block off the eastern coast of Newfoundland where a five per cent interest is held in 5.5 million acres, and a second on the Hekja Block, off the east coast of Baffin-Labrador Island where a 7.5 per cent interest is held in two million acres. The third well could be drilled on the Sabine Peninsula on Melville Island in the Arctic Islands. It would be the first of a possible four-well program to be conducted on the Peninsula over three years. Participation in this program is through a five per cent interest in Panarctic Oils Ltd. and by way of a direct two per cent interest in about 760,000 acres on which the drilling will take place.

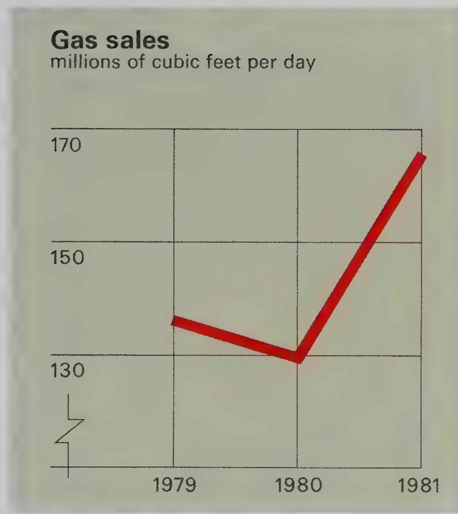
Studies continued at year end to assess the impact of The National Energy Program on projects in three areas: development of substantial interests in heavy oil deposits; development of an Athabasca oil sands lease being carried out by another company; and initiation of a tertiary recovery scheme at the Swan Hills oil field.

Production

Total Canadian and United States production for the year ended September 30, 1981, averaged 32,370 barrels of crude oil and liquids per day, and 165.8 million cubic feet of gas per day. (See page 45.) These rates include production from Davis Oil properties since the acquisition date. Comparable figures for 1980 were 31,053 barrels of oil per day and 129.9 million cubic feet of gas per day. Canadian oil production was reduced by 475,000 barrels, the equivalent of 1,300 barrels per day if averaged throughout the year, as a result of production cutbacks imposed on the industry by the Alberta Government in response to the Federal Government's National Energy Program. The cutbacks were lifted on September 1, 1981, when Alberta reached a pricing accord with the Federal Government.

Drilling began in November, 1981, on the first of two possible exploratory wells in Guyana.





Reserves

Largely as a result of the Davis Oil property acquisition, total gross proved reserves, before the deduction of royalties, of crude oil and natural gas liquids, and natural gas, at September 30, 1981, increased over the same period a year earlier. (See page 39.) Crude oil reserves increased from 119.7 million to 130.6 million barrels, and natural gas reserves increased from 938 billion to 1.1 trillion cubic feet.

Mining

Increased attention was focused on plans to develop extensive metallurgical and thermal coal properties located in Canada. The most significant properties are identified on the map on page 12. Progress was made on the Grassy Mountain property in the Blairmore area of Alberta with a view to placing a one million ton thermal mine in operation by 1984/85. Another promising Blairmore property lies at Lynx Creek. The results of 20 locations drilled in 1981 indicate three million tons of mineable thermal coal with a productive capability of up to 300,000 tons per year. Significant deposits of metallurgical and thermal coal are located in the Elk River area of British Columbia. This deposit would be capable of producing at rates up to four million tons per year.

On May 20, 1981, production at the silver and gold mine in Nevada was temporarily suspended pending an improvement in the price of silver and gold. With the sharp decline in the prices of silver and gold, coupled with high operating costs, the mine had operated at a loss for an eight month period preceding closure. Shaft sinking and development work continued since the production shutdown.

Households converting from oil contributed to a record number of customer additions in 1981.

Financial highlights
millions of dollars

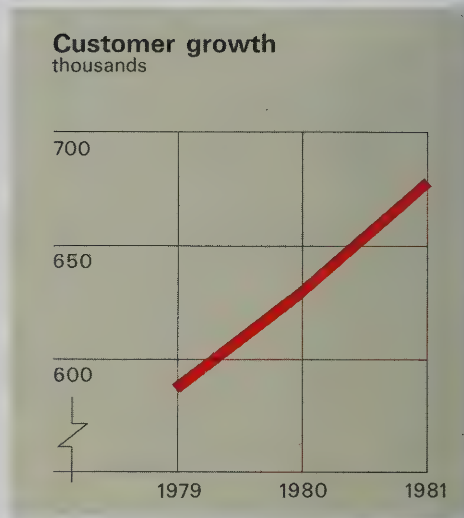
	1981	1980
Operating Revenue	**$1,093.9**	$ 859.0
Operating Income	**$ 107.4**	$ 90.7
Funds From Operations	**$ 60.9**	$ 54.3
Assets	**$1,301.6**	$1,070.2
Capital Expenditures	**$ 96.1**	$ 103.7

Principal Officers
The Consumers' Gas Company Ltd.

Robert W. Martin, President
J. L. Aiken, Senior Vice President
Accounting and Regulation
R. S. Lougheed, Senior Vice President
Gas Supply and Development
A. R. MacKenzie, Senior Vice President
Administration
C. F. Safrance, Senior Vice President
Operations

Highlights

The gas utility segment of the Company's business, positioned in a growing market and backed by adequate and secure supplies of natural gas, continued to attract record numbers of new customers in 1981. These new customers, coupled with the weather, which was slightly colder than last year, though normal when compared with historical averages, more than offset conservation efforts by all classes of customers and led to an increase in the volumes of gas sold. The Company, as part of a corporate reorganization, structured Consumers' as a wholly-owned subsidiary and plans to offer for sale a portion of the common share equity of the utility subject to favourable market conditions.



A record number of service additions brought the total number of customers served to 678,279 in 1981.

Marketing

Increasing public awareness of natural gas as a secure and convenient energy source that is less costly than oil or electricity has contributed to an unprecedented demand for natural gas service. During 1981, a record number of service additions brought the total number of customers served to 678,279. (See table page 15.) It is anticipated that this trend will continue for the next few years.

Total volumes of gas sold during 1981 increased four per cent to 296.9 billion cubic feet, primarily as a result of the increase in the number of customers as well as colder weather. (See tables page 16.) Total volumes of gas sold by Consumers' is still less than the record 318.7 billion cubic feet recorded in 1977. However, if thermal sales were excluded, gas sales show a steady and consistent increase in all categories of customers served.

Consumers' has sold natural gas to the R. L. Hearn Generating Station in Toronto since 1971. After peaking in 1975 at 61 billion cubic feet, sales volumes declined each successive year, reflecting both a drop in electrical requirements and the low cost of imported coal, an alternate energy source for this customer. In 1981 sales totalled 387 million cubic feet and are expected to remain at less than one billion cubic feet annually in the future.

Of the residential, commercial and industrial markets, the residential sector benefited most by the number of new customers. The largest number of customer additions came from households converting from oil: 31,412 versus 29,650 in 1980. The balance of 19,553 (17,400 last year) resulted from residential construction where Consumers' continues to attract 80 per cent of new residential construction. Sales in the residential market, which account for 27 per cent of total sales volumes, advanced 10 per cent to 81 billion cubic feet.

Sales volumes in the commercial market, which account for 37 per cent of total sales, also benefited from the addition of 5,100 customers.

Sales volumes in the industrial sector, other than to Hearn, which account for 36 per cent of total sales, increased slightly over the previous year to 106.1 billion cubic feet, despite a depressed economy and the continued surplus of heavy fuel oil.

Supply and Pricing

Substantially all of Consumers' natural gas requirements are purchased under long term contracts with TransCanada PipeLines Limited which, in turn, secures its supplies from western

Number of active customers

	1981	1980
Residential	**611,823**	568,984
Commercial	**60,041**	55,590
Industrial and Other	**6,415**	6,173
Total Active Customers	**678,279**	630,747

Canada, mainly in Alberta. As the result of an agreement signed after The National Energy Program between the Government of Alberta and the Federal Government, the price of gas will rise less rapidly than oil over the next four years. In the future, natural gas destined for domestic markets east of Alberta will be priced at the Alberta border and this price, which stood at $1.80 per thousand cubic feet on September 1, 1981, will be increased by 25 cents per thousand cubic feet every six months beginning February 1, 1982. Under the agreement, the wholesale price of natural gas in Toronto will not exceed 65 per cent of the average price of oil delivered to refineries in Toronto. The purpose is to encourage a shift from the use of oil, which is in short supply, to the use of such fuels as natural gas, which are in abundant supply.

The pricing agreement also provides for a development fund, the proceeds of which would be used to encourage natural gas distributors to serve areas where it had previously been uneconomic to do so. Consumers' will also benefit from the Canada Oil Substitution Program, a part of The National Energy Program that provides federal government grants to homeowners and businesses covering half the costs, to a maximum of $800, incurred in converting heating systems from oil.

Regulation

The rates which Consumers' charges its customers in Ontario result from hearings before the Ontario Energy Board (the Board), which establishes the utility's rate base and a fair rate of return upon this investment.

In 1979 and 1980 Consumers' did not earn the 14 per cent rate of return on common equity approved by the Board for those years. The deficiency resulted from the combined effects of regulatory lag (delay in recovering cost increases), continuing high levels of inflation and unexpectedly high interest rates. In an effort to overcome the effect of these problems, Consumers' has taken a number of steps.

To reduce regulatory lag, in June of 1980, Consumers' submitted fiscal 1981 budgets and forecasts as the basis for the determination of the rate base and return. These were accepted by the Board without significant change and rates were approved on November 28, 1980, thus reducing the effect of regulatory lag from the 12 months experienced in 1979 and 1980 to only two months for 1981.

In 1981 Consumers' incurred interest and finance costs for short term borrowings and floating rate preference shares significantly in excess of those provided for in its rate application previously accepted by the Board. In its current rate proceedings, Consumers' has proposed methods under which it will recover in rates its full cost of these financing charges. In addition, Consumers' expects to significantly lower its average level of short term indebtedness, thus reducing its exposure to widely fluctuating interest rates.

The current application also uses a forecast test year. By using a forecast test year, it is Consumers' expectation that the impact of high levels of inflation on the costs of serving customers will be recovered in rates approved by the Board and put in effect at the commencement of each fiscal year.

The rates which Consumers' currently charges its customers in Ontario are designed to produce the gross revenues allowed by the Board in its November

Sales revenue
thousands of dollars

	1981	1980
Residential	**$ 342,618**	$261,112
Commercial	**370,601**	283,408
Industrial	**342,399**	269,015
Thermal Generation	**1,214**	14,412
Total Gas Sales	**$1,056,832**	$827,947

Gas sales
millions of cubic feet

	1981	1980
Residential	**81,121**	73,756
Commercial	**109,205**	101,663
Industrial	**106,148**	105,077
Thermal Generation	**387**	5,560
Total Sales	**296,861**	286,056

28, 1980 decision and in subsequent interim decisions. The Board determined that Consumers' average rate base, using the 1981 test year, was $969.2 million and that a fair and reasonable rate of return on that rate base was 10.81 per cent. Based on these determinations, the Board found that Consumers' was entitled to increase its rates effective December 1, 1980, to generate additional gross revenue in the amount of $17.3 million annually. Included in the 10.81 per cent rate of return was a provision for earning a 14.25 per cent rate of return on a 33.3 per cent common shareholders' equity component of total capitalization.

The Board has given interim approval to a rate increase which will allow Consumers' to recover the increases in federal excise taxes which became effective May 1 and July 1, 1981, levied on volumes of gas received by Consumers'. Such interim approval also allows Consumers' to recover related increases in costs.

Consumers' current rate application requests a $102.1 million annual revenue increase to recover the anticipated cost of service which includes a component for an 18 per cent rate of return on common equity. In consideration of this request, the Board granted Consumers' interim relief in the amount of $50.9 million, with a rate of return on common equity of 15 per cent, effective October 1, 1981. The final decision on the current rate application is expected in December, 1981.

Merchandising

New planning procedures and a revised management structure contributed to growth in sales from Consumers' 25 retail stores. Revenues increased 16 per cent to $13 million.

Exploration

An active exploration and production program was maintained during the year on the 1.1 million net acres of land held by Consumers' onshore in southwestern Ontario and offshore in Lake Erie. In 1981, Consumers' participated in the drilling of 48 wells which resulted in 12 Lake Erie gas wells and one onshore oil well. Production from Consumers' wells in Ontario rose by 63 per cent to 7.1 billion cubic feet in 1981, accounting for 2.3 per cent of Consumers' total annual requirements.

Consulting

As a result of Consumers' reputation both domestically and internationally as a leading authority on utility operation, continued demands for consulting assistance have been received from other gas distribution organizations around the world. At the present time clients represent distributors, transmission companies and governmental agencies in Denmark, Ireland and Sweden.

Engineering project work continues as well in Algeria with the state-run Sonelgaz. Considerable assistance was provided to domestic utilities in British Columbia, Ontario and Eastern Canada.

Organization

Following the approval to reorganize under a holding company, Hiram Walker Resources Ltd., it was announced that 10 to 15 per cent of the common shares of Consumers' would be offered to the public. The timing of the financing will depend upon an improved equity market in Canada. Consumers' will benefit from the sale as it will enable expansion to be financed on a basis appropriate for a utility.

Management's discussion and analysis of financial condition and results of operations

The following financial review contains a discussion of the results of operations and financial position of the Company for each of the three years ended September 30, 1981. The comments contained in this section should be read in conjunction with the Consolidated Financial Statements and related Notes, Supplementary Information, and the Five Year Financial Review and Other Data.

Results of Operations

Net income applicable to common shares increased from $217.9 million in 1980 to $222.3 million in 1981. However, the results of 1981 included a non-recurring tax benefit relating to stock appreciation relief ($37.0 million) and a foreign currency translation gain ($24.5 million). After adjusting for these items, net income applicable to common shares would have been $160.7 million in 1981 compared with $223.1 million in 1980. The major reasons for this result were the effects of the Canadian National Energy Program, reduced mining income due to both lower prices and ore grades, higher borrowing costs and the impact of the acquisition of petroleum and natural gas properties from Davis Oil Company in March, 1981.

The increase in 1980 net income applicable to common shares over 1979 levels was principally attributable to the impact of the consolidation of Home Oil Company Limited ("Home") for nine months in 1980 as explained in note 2 of the Notes to the Consolidated Financial Statements.

The following table sets forth the operating revenue and operating income by business segment for each of the three years ended September 30, 1981.

	Operating Revenue			Operating Income		
	1981	1980	1979	**1981**	1980	1979
			(millions of dollars)			
Distilled spirits	**$1,434.9**	$1,417.2	$1,318.9	**$263.1**	$250.9	$228.4
Natural resources	**349.4**	231.3	—	**82.9**	92.1	—
Gas utility	**1,093.9**	859.0	812.9	**107.4**	90.7	94.4
	$2,878.2	$2,507.5	$2,131.8	**$453.4**	$433.7	$322.8

Note: Operating income represents income before interest, income taxes and other non-operating revenues and expenses.

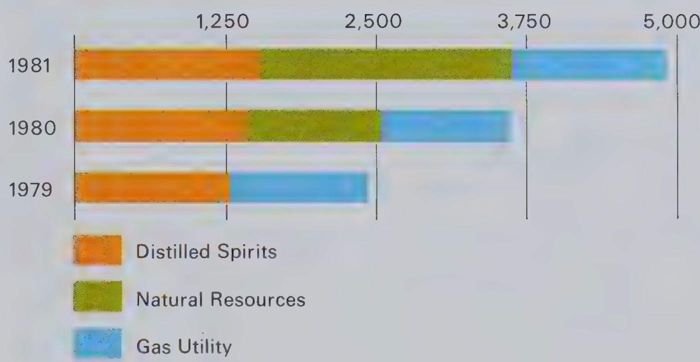
Distilled Spirits

In 1981, revenue increases caused by higher selling prices were largely offset by a decline in sales volumes. This decline reflected a general reduction of business activity, particularly in the United States and Europe. The favourable impact on operating income resulting from improved margins was partly offset by increases in advertising costs and higher operating costs caused by continuing inflation.

During both 1979 and 1980, revenue and operating income in the distilled spirits business increased modestly, principally as a result of higher selling prices for principal brands offset in part by increases in selling and general expenses reflecting inflationary pressures and higher translation rates for expenses of European subsidiaries.

In 1979, other revenue was reduced by a non-recurring expense of $22.9 million related to the closing of the facilities at Peoria, Illinois.

Identifiable assets
millions of dollars



Natural Resources

To provide a more meaningful comparison of the results of operations of the natural resource segment, the 1980 figures have been restated below to reflect a full year's operations of Home. The accounting for the investment in Home is described in note 2 of the Notes to the Consolidated Financial Statements.

	Canada		United States	
	1981	1980 (restated)	**1981**	1980 (restated)
		(millions of dollars)		
Operating revenue	**$212.1**	$199.3	**$137.3**	$110.0
Operating income (loss)	**$ 98.1**	$ 99.5	**$(15.2)**	$ 24.9

Canada

Revenue increased during 1981 because of higher oil and gas prices and increased natural gas production, offset in part by cutbacks in oil production imposed March 1 and June 1, 1981, by the Alberta government.

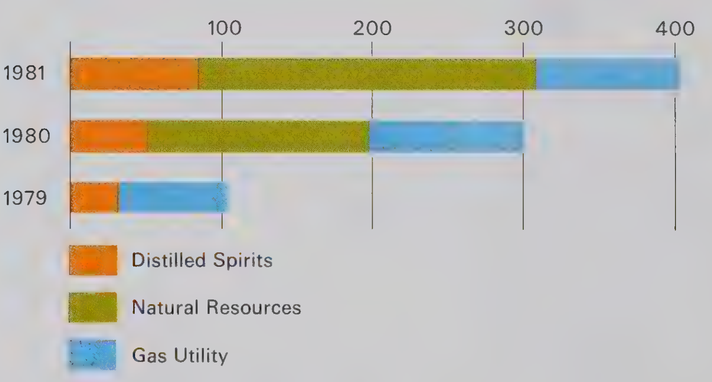
While operating revenue increased in 1981, operating income decreased from that of 1980 primarily as a result of the imposition of the 8% Petroleum and Gas Revenue Tax, implemented January 1, 1981, as part of The National Energy Program. The full impact of this Program on after tax income in 1981 was a reduction of approximately $19 million.

United States

Revenue in the United States increased significantly in 1981 as a result of the acquisition in March of the Davis Oil properties offset in part by reduced mining revenue due to both lower prices and ore grades.

Despite higher revenue, operating income decreased in 1981 primarily as a result of the reduction in mining revenue described above. Lower than anticipated production caused by delays in the implementation of the development drilling program resulted in an operating loss of $3.2 million before interest and income taxes from the newly acquired Davis Oil properties.

Capital expenditures
millions of dollars



Gas Utility

Revenue in the gas utility business increased during the three year period from $812.9 million in 1979 to $1,093.9 million in 1981. Rate increases granted by the Ontario Energy Board to cover both increases in the cost of natural gas purchased and operating costs, accounted for most of the revenue increases. Sales volumes declined in both 1979 and 1980 due to warmer weather, customer conservation measures and reduced deliveries to a thermal generating station caused by a declining demand for electric power and its increased use of coal. In 1981, sales volumes increased over 1980 levels due mainly to the colder weather.

Operating income increased in both 1979 and 1981 for the reasons outlined above. However, operating income decreased in 1980 as a result of higher operating costs which were not recovered on a timely basis in the regulatory process.

Interest

Interest expense has increased significantly from $75.1 million in 1979 to $224.8 million in 1981. This substantial increase in borrowing costs relates to the financing of the growth in the Company's asset base, particularly the natural resource segment. During 1981 major borrowings were incurred when interest rates were at unprecedented levels for short term debt. A significant portion of this debt was replaced during the year with fixed rate debt at more favourable rates of interest. The increases in 1980 and 1979 were due generally to higher interest rates and an increase in the average level of borrowings plus the inclusion of Home in 1980.

Income Taxes

Excluding the stock appreciation relief of $37.0 million with respect to the United Kingdom, which is described in note 13 of the Notes to the Consolidated Financial Statements, income taxes declined from $130.9 million in 1980 to $98.7 million in 1981. This decrease was primarily the result of losses in the United States natural resource segment, lower effective tax rates in foreign jurisdictions and the application of investment tax credits. The decrease was offset in part by higher income taxes on the Canadian natural resource segment arising from The National Energy Program. Legislative changes pursuant to this Program restrict the deduction of earned depletion and treat the 8% Petroleum and Gas Revenue Tax as a non-deductible item for income tax purposes, thereby significantly increasing income taxes as a percentage of income from the Canadian natural resource segment.

Income taxes, as a percentage of income, remained unchanged for 1979 and 1980.

Foreign Currency Translation

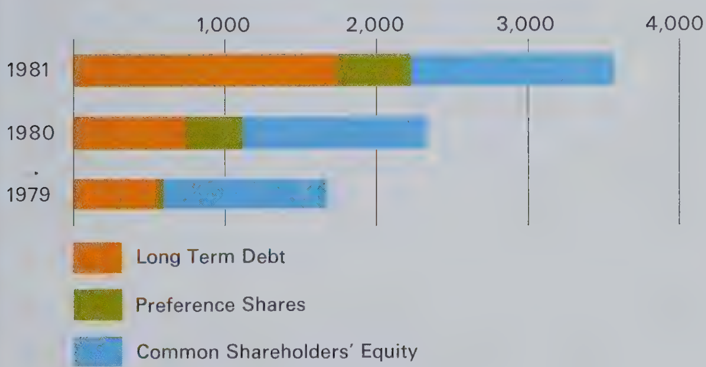
The foreign currency translation gain in 1981 of $24.5 million arose principally from translating the financial statements of foreign subsidiaries into Canadian dollars. During 1981, there were significant changes in the value of the United States dollar, the French Franc and the United Kingdom Pound Sterling relative to the Canadian dollar. The foreign currency translation loss in 1980 of $5.2 million principally reflects translation of a $30 million U.S. debenture, due in December, 1980, at current exchange rates which were much higher than the historical rates. The gain in 1979 reflects the strengthening of several foreign currencies relative to the Canadian dollar.

Inflation

The continuing high rates of inflation are having a significant impact on the Company's operations. However, the Company's financial statements are based on historical costs which do not reflect the full impact of the effects of inflation and changing prices. Although historical cost provides a basic measure of financial results, the matching of current revenues with the amortization of the original cost of assets generally overstates earnings during periods of high inflation.

Each of the Company's business segments is affected differently by inflation.

Capital structure
millions of dollars



In the distilled spirits business, inflation has affected operating costs and expenses in all areas where the Company's business is carried out. However, selling prices have been adjusted to maintain profit margins and the Company will, competitive conditions permitting, continue to take similar actions in the future.

In the Canadian natural resource business, petroleum and natural gas prices are set by Federal and Provincial governments and while they have been increasing steadily in recent years, they are still substantially below world prices.

The gas utility business is primarily regulated by the Ontario Energy Board and as such the impact of inflation on operating costs is reflected in the regulatory process. This enables the Company to react to both inflation and to changing prices on a timely basis.

Liquidity and Capital Resources

During the past three years, the Company experienced a rapid growth in total assets from $2.4 billion in 1979 to $4.9 billion in 1981. This growth was the result of the acquisition of the balance of the assets of Home ($497.5 million), the acquisition of petroleum and natural gas properties from Davis Oil ($737.0 million) and ongoing major capital expenditure programs ($808.6 million) in all three business segments.

The financing of this growth in assets was accomplished by the use of the funds generated from operations ($1,017.5 million) as well as by the issuance of preference shares ($489.4 million) and long term debt ($1,365.8 million). The debt to equity ratio has increased from 0.48:1 in 1979 to 0.95:1 in 1981 reflecting a larger percentage of debt financing.

The funds generated from operations increased from $231.1 million in 1979 to $421.6 million in 1981 as a result of improved margins in both the distilled spirits and gas utility businesses as well as the consolidation of Home in 1980.

The capital expenditure programs excluding the balance of the acquisition of Home and the acquisition of petroleum and natural gas properties from Davis Oil increased from \$103.5 million in 1979 to \$403.8 million in 1981. This reflected the inclusion of Home in 1980, the ongoing program for exploration and development of petroleum and natural gas reserves, and the expansion of the gas utility system to meet demands increased by programs to encourage conversion to natural gas. Also reflected were the construction of a blending and bottling facility at Fort Smith, Arkansas and a bottling facility at Dumbarton, Scotland. The completion of these facilities will conclude the major capital expenditures program for the distilled spirits segment.

In the natural resource business, the 1982 capital expenditures program will include both the development of the oil discovery in Western Australia as well as the continued development of the Davis Oil properties. In Canada, the cash flow generated by the production of existing reserves does not provide sufficient funds to finance an aggressive capital expenditure program. The Company will invest in projects where there is potential for satisfactory rates of return and cash flow.

In 1982 the continuing growth of the gas utility business will be financed independently by The Consumers' Gas Company Ltd. through the issue of its own equity and debt securities. The timing of these financings will be dependent on favourable market conditions.

During 1981, significant progress was made in raising fixed rate capital thereby reducing the Company's exposure to adverse fluctuations in interest rates. This program will be continued in 1982 as evidenced by the financings completed subsequent to the fiscal year end. Apart from the above program, the Company does not anticipate having to raise a significant amount of new capital to finance its ongoing operations.

Outlook

Management's discussion of the outlook for the Company is incorporated in the Report to Shareholders on pages 2 and 3 of this report.

Statement of Responsibility and Auditors' Report

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada consistently applied. The significant accounting policies followed are described in the accompanying Summary of Significant Accounting Policies. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. In the preparation of these statements estimates are sometimes necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Management believes such estimates are based on careful judgements and have been properly reflected in the accompanying consolidated financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, which is composed of directors who are not employees of the Company. The committee meets periodically with management, the internal auditors and the external auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements.

The external auditors conduct an independent examination in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and the maintenance of proper standards of conduct in its activities.

W. P. Wilder
President and
Chief Executive Officer

A. R. McCallum
Senior Vice President and
Chief Financial Officer

Auditors' Report

To the Shareholders of Hiram Walker Resources Ltd.

We have examined the consolidated balance sheets of Hiram Walker Resources Ltd. as at September 30, 1981 and 1980 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended September 30, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended September 30, 1981 in accordance with generally accepted accounting principles applied on a consistent basis.

Thorne Riddell Price Waterhouse
Chartered Accountants

Toronto, Canada
November 16, 1981

Summary of Significant Accounting Policies

Hiram Walker Resources Ltd.

The Company's accounting policies, which conform with accounting principles generally accepted in Canada, are summarized below:

Inventories

Inventories are stated at amounts not exceeding manufactured or purchased cost. They include substantial quantities of whiskies and cognac which will remain in storage over a period of years, but which are classified as current assets in accordance with the general practice of the distilling industry.

Investments

Investments in joint venture companies and companies over which the Company exercises significant influence are accounted for on the equity method. Other investments are stated at cost.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Normal retirements of assets are recorded by relieving the asset account for the cost of the asset and charging this amount, net of any proceeds, to accumulated depreciation or depletion. Upon retirement or sale of major items of property, the asset accounts are relieved of the cost of such property together with accumulated depreciation or depletion. The difference between the depreciated value of such major items and the proceeds, if any, is included in income.

Maintenance and repair expenditures are charged to cost of production or other expense accounts. Costs of improvements which increase the service capacity or prolong the service life of the asset are capitalized.

Interest is capitalized on costs of acquiring and evaluating individually significant unproved properties and major development projects during the period of exploration and development and on costs incurred during construction of major additions to property, plant and equipment.

Depreciable property, plant and equipment (except for certain petroleum and mining equipment) is depreciated on a straight line basis at rates varying from 2½% to 5% for buildings, 1.6% to 6.1% for utility plant and 4% to 33⅓% for other equipment. Production equipment used in petroleum and mining operations is depreciated using the unit of production method.

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against income as set out below. Capitalized costs include land acquisition costs, geological and geophysical expenditures, lease rentals and related charges applicable to non-producing property, costs of drilling both productive and non-productive wells and overhead charges related to exploration and development activities. Such costs are limited to the future net revenues from estimated production from proved reserves at current prices and the fair market value of unproved properties. A separate cost centre is established for each country in which the Company is engaged in exploration or production activities and for the Athabasca Oil Sands. Such costs are depleted using the unit of production method based upon estimated proved reserves, as determined by company petroleum engineers. Natural gas reserves and production are converted to equivalent barrels of crude oil based on the relative energy content. Costs of acquiring and evaluating significant unproved properties and costs of major development projects are excluded from the computation of depletion until such time as additional reserves are proved, the project is complete or an impairment in value has occurred.

Mining exploration costs are charged to income as incurred (included in depletion) until such time as the presence of economically recoverable reserves is established. Subsequent expenditures are capitalized and charged to income using the unit of production method.

Substantially all of the resource related activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

Foreign Currency Translation

The accounts of foreign subsidiaries and transactions of the Company denominated in foreign currencies are translated to Canadian dollars on the following basis:

Current assets, except maturing distilled spirits inventories, and current liabilities are translated using the exchange rates at the dates of the balance sheets. Maturing distilled spirits inventories and other assets and liabilities are translated at the rates in effect at the time the original transaction took place. Revenue and expense items (excluding matured distilled spirits inventories charged to cost of sales, depreciation and depletion, all of which are translated at the rate of exchange applicable to the related asset) are translated using the average rates of exchange throughout the period. Translation gains and losses are included in income.

Pension Plans

The Company has various pension plans covering a majority of its employees. The plans, certain of which require contributions by participating employees, provide pension benefits at normal retirement age. Unamortized prior service costs for these plans are being funded and charged to operations over periods varying from 15 to 30 years.

Income Taxes

Deferred taxes are provided for all significant timing differences in reporting revenue and expenses for financial statement and income tax purposes except in regulated gas utility operations when rate and revenue structures are designed and approved not to recover deferred taxes in current revenues. The timing differences arise principally from the excess of exploration and development expenditures and capital cost allowances claimed for tax purposes over amounts provided for depletion and depreciation in the financial statements.

Prior to July, 1981, deferred income taxes were also provided on timing differences arising from stock appreciation relief provisions in the United Kingdom. Tax deferred in a particular year due to an increase in inventories was forgiven after six years if inventories did not decline in that period. The Company provided for deferred tax each year after considering the magnitude of current and prior years' inventory changes and the years remaining before the related taxes would be forgiven. However, under the terms of recently enacted legislation, stock appreciation relief provisions now represent a permanent tax saving on a going concern basis.

No provision has been made for taxes on undistributed earnings of foreign subsidiaries not currently available for paying dividends inasmuch as such earnings have been reinvested in the businesses.

Consolidated Statement of Income – Note 2

Hiram Walker Resources Ltd.

	Year ended September 30		
	1981	1980	1979
	(Expressed in thousands except per share amounts)		
Revenue			
Distilled spirits	**$1,434,952**	$1,417,175	$1,318,904
Natural resources	**349,386**	231,279	—
Gas utility	**1,093,862**	859,054	812,897
Other	**67,134**	55,941	12,429
	2,945,334	2,563,449	2,144,230
Costs and expenses			
Cost of sales and operations			
Distilled spirits	**810,817**	847,195	806,479
Natural resources	**129,913**	82,915	—
Gas utility	**898,083**	695,600	656,396
Selling and general	**420,038**	362,041	300,855
Depletion and depreciation	**165,962**	86,050	45,290
Interest on long term debt (note 6)	**131,882**	66,588	48,020
Other interest	**92,873**	51,319	27,051
	2,649,568	2,191,708	1,884,091
Income before income taxes and undernoted items	**295,766**	371,741	260,139
Income taxes (note 13)	**61,656**	130,922	93,366
Income before undernoted items	**234,110**	240,819	166,773
Foreign currency translation gain (loss)	**24,540**	(5,195)	3,173
Minority interest	**(8,589)**	(6,012)	(3,244)
Equity in earnings of Home Oil Company Limited	—	9,910	10,462
Net income	**250,061**	239,522	177,164
Dividends on preference shares	**27,752**	21,597	2,496
Net income applicable to common shares	**$ 222,309**	$ 217,925	$ 174,668
Net income per common share			
Basic	**$ 3.23**	$ 3.18	$ 2.56
Fully diluted	**$ 3.02**	$ 3.01	$ 2.52
Weighted average number of common shares outstanding	**68,881**	68,465	68,205

Consolidated Balance Sheet – Note 2

Hiram Walker Resources Ltd.

	September 30 1981	1980
	(Expressed in thousands)	
Assets		
Current assets		
Cash and short term investments	**$ 111,562**	$ 86,149
Income taxes recoverable	**38,191**	—
Accounts receivable	**443,760**	353,281
Inventories (note 4)	**1,137,393**	978,241
Prepaid expenses	**51,627**	34,618
	1,782,533	1,452,289
Investments (note 5)	**130,204**	134,113
Property, plant and equipment (note 6)	**2,952,406**	1,976,867
Other assets and deferred charges	**53,095**	47,391
	$4,918,238	$3,610,660
Liabilities and Shareholders' Equity		
Current liabilities		
Loans and notes payable (note 7)	**$ 418,631**	$ 450,122
Income and other taxes	**84,636**	45,011
Accounts payable and accruals	**367,896**	321,369
Dividends payable	**29,772**	29,742
Current portion of long term debt	**15,736**	71,112
	916,671	917,356
Deferred production revenue	**18,962**	10,129
Long term debt (note 8)	**1,737,634**	671,354
Deferred income taxes (note 13)	**287,565**	290,049
Minority interest	**42,543**	35,949
Preference shares of subsidiary companies (note 9)	**93,092**	96,904
Shareholders' equity		
Capital stock (notes 10 and 11)		
Preference shares	**459,471**	361,588
Common shares	**157,979**	151,132
Retained earnings	**1,206,338**	1,079,975
	1,823,788	1,592,695
Deduct common shares held by Trustees at cost (note 11)	**2,017**	3,776
	1,821,771	1,588,919
	$4,918,238	$3,610,660

Approved by the Board:
W. P. Wilder, Director
Gordon C. Gray, Director

Consolidated Statement of Changes in Financial Position – Note 2

Hiram Walker Resources Ltd.

	Year ended September 30		
	1981	1980	1979
	(Expressed in thousands)		
Funds were obtained from			
Operations			
Net income	**$ 250,061**	$ 239,522	$ 177,164
Charges (credits) not affecting funds			
Depletion and depreciation	**165,962**	86,050	45,290
Deferred income taxes	**(1,175)**	40,399	9,998
Minority interest	**8,589**	6,012	3,244
Other	**(1,845)**	(7,228)	(4,551)
	421,592	364,755	231,145
Funds were used for			
Dividends	**118,655**	111,853	62,815
Reduction in long term debt	**123,005**	102,225	23,235
	241,660	214,078	86,050
Funds remaining for investment	**179,932**	150,677	145,095
Investment			
Acquisition of natural resource properties from Davis Oil Company	**736,987**	—	—
Acquisition of Home Oil Company Limited	—	438,688	—
Investment in Home Oil Company Limited	—	—	58,790
Property, plant and equipment	**403,798**	301,316	103,527
Increase in other items, net	**2,592**	17,307	35,310
	1,143,377	757,311	197,627
Deficiency of funds before financing	**963,445**	606,634	52,532
Financing			
Issue of long term debt on acquisition of natural resource properties from Davis Oil Company	**758,834**	—	—
Issue of other long term debt	**430,810**	81,123	95,058
Issue of preference shares of subsidiary companies	—	—	40,000
Issue of preference and common shares	**104,730**	347,018	172
	1,294,374	428,141	135,230
Increase (decrease) in funds	**$ 330,929**	$ (178,493)	$ 82,698
Changes in funds			
Cash and short term investments	**$ 25,413**	$ (10,868)	$ 16,430
Income taxes recoverable	**38,191**	—	—
Accounts receivable	**90,479**	77,537	30,245
Inventories	**159,152**	142,394	105,638
Prepaid expenses	**17,009**	10,068	(827)
Loans and notes payable	**31,491**	(215,192)	(48,745)
Income and other taxes	**(39,625)**	8,070	34,087
Accounts payable and accruals	**(46,527)**	(107,702)	(45,873)
Dividends payable	**(30)**	(22,221)	(922)
Current portion of long term debt	**55,376**	(60,579)	(7,335)
Increase (decrease) in funds	**$ 330,929**	$ (178,493)	$ 82,698

Consolidated Statement of Retained Earnings – Note 2

Hiram Walker Resources Ltd.

	Year ended September 30		
	1981	1980	1979
	(Expressed in thousands)		
Balance at beginning of year	**$1,079,975**	$ 957,536	$ 843,069
Net income	**250,061**	239,522	177,164
Other	**130**	110	328
	1,330,166	1,197,168	1,020,561
Deduct			
Dividends			
Preference shares	**27,752**	21,597	2,496
Common shares	**90,903**	90,256	60,319
Share issue expenses, net of income taxes	**5,173**	5,340	210
	123,828	117,193	63,025
Balance at end of year	**$1,206,338**	$1,079,975	$ 957,536

Notes to Consolidated Financial Statements

Hiram Walker Resources Ltd.

(Tabular amounts expressed in thousands except shares and per share amounts)

1. Accounting Policies

The Summary of Significant Accounting Policies set out on pages 22 and 23 forms an integral part of these financial statements.

2. Basis of Financial Statement Presentation

Pursuant to an Arrangement, which became effective June 1, 1981, Hiram Walker Resources Ltd. (the Company), previously a subsidiary of Hiram Walker-Consumers Home Ltd. (renamed The Consumers' Gas Company Ltd.) became the parent of Consumers' by acquiring all of its common and convertible preference shares and options thereon for similar shares and options of the Company.

None of the Group 1 Preference Shares, which are non-voting and non-convertible and none of the debt securities of The Consumers' Gas Company Ltd. were exchanged for securities of the Company.

As part of the Arrangement the Company acquired all of the shares of Walker-Home Oil Ltd. (previously a subsidiary of Consumers') which owns all the shares of Hiram Walker-Gooderham & Worts Limited and Home Oil Company Limited.

These financial statements have been prepared as though the Arrangement had been in effect throughout the three years ended September 30, 1981.

These financial statements consolidate the accounts of Walker-Home Oil Ltd. reflecting its investments on the following basis:

(a) the accounts of Hiram Walker-Gooderham & Worts Limited are consolidated under the pooling of interests method of accounting;

(b) the investment in Home Oil Company Limited is accounted for on the equity method of accounting to December 31, 1979; and

(c) the accounts of Home Oil Company Limited are consolidated from January 1, 1980, under the purchase method of accounting.

These financial statements consolidate the accounts of The Consumers' Gas Company Ltd. on the pooling of interests method of accounting.

3. Home Oil Company Limited

Effective December 31, 1979, Home Oil Company Limited became a wholly-owned subsidiary when the remaining shares, not already owned, were acquired. The acquisition has been accounted for as a purchase.

The net assets acquired and consideration given as at December 31, 1979, are summarized below:

Total assets	$999,583
Less:	
Total liabilities	372,502
Minority interest	8,192
	618,889
Net assets acquired prior to December 31, 1979	210,220
Net assets acquired as at December 31, 1979	$408,669
Consideration	
Cash	$ 65,177
7½% Convertible Voting Preference Shares, par value $25.00 (13,739,667 shares)	343,492
	$408,669

Had Home been wholly-owned since October 1, 1978, the Company's results of operations would have been as follows:

	Year ended September 30 (unaudited) 1980	1979
Revenue	$2,648,452	$2,390,608
Net income	$ 250,656	$ 189,941
Basic net income per common share	$ 3.25	$ 2.37

4. Inventories

	September 30 **1981**	1980
Finished goods	**$ 123,040**	$ 130,100
Natural gas in storage	**254,897**	180,518
Maturing whiskies and cognac	**625,400**	565,026
Raw materials and supplies	**134,056**	102,597
	$1,137,393	$ 978,241

5. Investments

	September 30 **1981**	1980
Investments accounted for on the equity method	**$ 44,936**	$ 38,576
Other investments – at cost	**85,268**	95,537
	$ 130,204	$ 134,113

Other investments include $51,000,000 representing approximately a 12% interest in the Bacardi group of companies.

6. Property, Plant and Equipment

	September 30					
	1981			1980		
	Cost	**Accumulated Depreciation and Depletion**	**Net**	Cost	Accumulated Depreciation and Depletion	Net
Business segments						
Distilled spirits	**$ 489,163**	**$ 202,444**	**$ 286,719**	$ 406,438	$ 183,507	$ 222,931
Natural resources	**1,979,518**	**147,365**	**1,832,153**	1,020,510	36,393	984,117
Gas utility	**1,044,058**	**210,524**	**833,534**	955,362	185,543	769,819
	$3,512,739	**$ 560,333**	**$2,952,406**	$2,382,310	$ 405,443	$1,976,867

The cost of acquiring and evaluating significant unproved properties and costs of major development projects totalling $449,457,000 at September 30, 1981 ($173,674,000 at September 30, 1980) are excluded from the amounts being depleted, as described in the Summary of Significant Accounting Policies on page 22. The recovery of such investment in future periods is dependent on successful exploitation of the properties or in some cases successful implementation of secondary recovery operations.

During 1981, the Company acquired certain proved and unproved petroleum and natural gas properties located primarily in the states of Wyoming, Oklahoma, Louisiana and Texas for a consideration of $736,987,000. Based on reports by company petroleum engineers, $303,740,000 of the cost of these properties was allocated to the unproved category, which is excluded from capitalized costs being depleted. These properties are currently under various stages of exploration and development, and it is anticipated that the cost of all significant unproved properties will be included in the depletion computation by September 30, 1986.

During 1980, the Company acquired Home Oil Company Limited. At September 30, 1980 natural resource properties included $173,674,000 relating to unproved properties which were excluded from capitalized costs being depleted. It is anticipated that these costs will be included in the depletion computation over the next five years.

Interest capitalized during the year ended September 30, 1981 amounted to $11,033,000. Interest capitalized prior to October 1, 1980, was not significant.

7. Loans and Notes Payable

	September 30	
	1981	1980
Bank loans	**$ 224,168**	$ 112,482
Commercial paper	**189,265**	326,036
Other	**5,198**	11,604
	$ 418,631	$ 450,122

The Company has unused lines of credit of $791,387,000 at September 30, 1981 ($257,000,000 at September 30, 1980).

8. Long Term Debt

	Weighted Average Interest Rate	Maturity	September 30 1981	1980
Walker-Home Oil Ltd. and its subsidiaries				
Canadian dollars				
Secured				
Bonds(1)	10.36%	1983-1986	**$ 9,125**	$ 11,625
Revolving bank term loan(2)	(2)	1989	**66,350**	70,675
Unsecured				
Debentures	9.875	1980	—	20,000
Debentures	13.34	1986-1998	**195,311**	71,267
Other			**313**	5,722
United States dollars, unsecured				
Debentures	9.50	1980	—	34,707
Debentures	14.12	1986	**84,639**	25,644
Revolving bank credit agreement	(3)	1984	**551,264**	—
Other			**24,352**	20,332
British Pounds, unsecured				
Debentures	14.25	1986	**67,009**	—
Notes	14.50	1986	**22,916**	—
Revolving credit facility	(4)	1985	**109,306**	—
Bank loans	12.25	1982-1988	**44,657**	10,306
Swiss Francs, unsecured				
Notes	7.75	1986	**57,475**	—
Other			**457**	500
The Consumers' Gas Company Ltd. and its subsidiaries(5)				
Canadian dollars				
Secured bonds(6)	9.58	1983-1996	**185,788**	192,413
Unsecured				
Debentures	7.00	1981	—	5,600
Debentures	11.55	1982-1999	**309,733**	243,689
Other			**107**	219
United States dollars, secured bonds(6)	6.68	1985-1993	**24,568**	29,767
			1,753,370	742,466
Less amounts due within one year			**15,736**	71,112
			$1,737,634	$671,354

(1) Secured by mortgages on various producing properties and by term deposits.
(2) Secured by accounts receivable, inventory and certain oil and gas properties. The rate of interest is based on Canadian prime commercial lending rates. The weighted average interest rate during 1981 was 18.19% and the interest rate at September 30, 1981, was 21.25%.
(3) The rate of interest under this facility is based upon rates prevailing from time to time in the United States and/or the London inter-bank offered rate (Libor). The weighted average interest rate was 18.34% during 1981 and 19.47% at September 30, 1981.
(4) The rate of interest under this facility, which was drawn down in September, 1981, is a variable rate based upon Libor. The weighted average interest rate was 15.46% at September 30, 1981.
(5) The Company is obligated to ensure that all amounts due on the Consumers' First Mortgage Sinking Fund Bonds and Sinking Fund Debentures are paid to holders of these securities. The Company's obligation to the holders of Consumers' First Mortgage Sinking Fund Bonds is secured by the shares of Walker-Home Oil Ltd.
(6) The First Mortgage Sinking Fund Bonds rank pari passu and are secured by a first fixed and specific mortgage, pledge and charge on gas utility assets.

The estimated amount of long term debt maturities and sinking fund requirements for the five years subsequent to September 30, 1981, expressed in thousands, are as follows: **1982,** $15,736; **1983,** $38,550; **1984,** $595,925; **1985,** $165,749; **1986,** $269,825.

Long term debt payable in foreign currency, if converted into Canadian dollars on the basis of the exchange rates prevailing at September 30, 1981, would decrease by $15,758,000.

9. Preference Shares of Subsidiary Companies(1)

	September 30 1981	1980
The Consumers' Gas Company Ltd. and a subsidiary		
Group 1 Redeemable Preference Shares, par value $100 each, comprised of 5½% Cumulative Preference Shares Series A and Series B and 5% Cumulative Preference Shares Series C(2)	**$12,292**	$12,504
Cumulative Redeemable First Preference Shares, without nominal or par value(3)	**44,000**	46,000
Cumulative Redeemable Second Preference Shares, without nominal or par value(4)	**36,800**	38,400
	$93,092	$96,904

(1) The Group 1 Preference Shares which were not exchanged for securities of the Company, pursuant to the Arrangement described in note 2, are now classified as Preference Shares of subsidiary companies. The 1980 comparative figures have been reclassified to conform to this presentation.

(2) The Company is obligated to ensure that all amounts due on the Consumers' Group 1 Preference Shares are paid to holders of these securities.

(3) Dividends are payable at an annual rate of one-half of the published prime lending rate plus 1.25%. Annual redemption requirements are $2,000,000 in 1982, $6,000,000 to 1985 and $8,000,000 to 1988.

(4) Dividends are payable at an annual rate of one-half of the published prime lending rate plus 1%. Annual redemption requirements are $1,600,000 in 1982, $4,800,000 to 1985 and $6,400,000 to 1988.

10. Capital Stock

Preference Shares
Authorized (issuable in series)
Class A – 10,000,000 shares of $25.00 each
Class B – 10,000,000 shares of $25.00 each
Class C – 19,974,845 shares of $20.00 each
Class D – 19,933,967 shares of $25.00 each

	September 30 1981		1980	
Outstanding	**Shares**	**Amount**	Shares	Amount
Class B				
9½% cumulative, First Series, convertible into common shares at $31.50 per share up to September 30, 1988, redeemable at $25.00 per share(1)	**4,000,000**	**$100,000**	—	$ —
Class C				
9% cumulative, First Series, convertible into common shares at $15.00 per share up to November 1, 1984, redeemable at varying premiums reducing from $1.00	**618,088**	**12,362**	733,358	14,667
Class D				
7½% cumulative, voting, First Series, convertible into common shares at $28.00 per share up to December 31, 1989, redeemable at varying premiums reducing from $1.875	**13,884,351**	**347,109**	13,876,829	346,921
	18,502,439	**$459,471**	14,610,187	$361,588

(1) On September 30, 1981, the Company issued 4,000,000 9½% Convertible Preference Shares. These shares carry the right to receive Common Share Purchase Warrants on the basis of one warrant for each two preference shares held. Each warrant entitles the holder to buy one common share at $31.50 on or before September 30, 1986. On September 30, 1981, 2,000,000 Common Share Purchase Warrants were issued.

Common Shares	September 30 1981	1980
Authorized	**100,092,474**	100,000,000
Outstanding (including shares held by Trustees)	**69,207,872**	68,899,823

Changes in Capital Stock

	Preference Shares		Common Shares	
	Shares	Amount	Shares	Amount
Balance October 1, 1978	1,105,750	$ 22,647	68,453,348	$142,821
Conversion of preference to common	(183,525)	(4,203)	315,619	4,203
Issued on conversion of debentures			5,283	115
Issued on exercise of stock options, for cash			13,407	172
Balance September 30, 1979	922,225	18,444	68,787,657	147,311
Issued on acquisition of Home Oil Company Limited	13,739,667	343,492		
Conversion of preference to common	(195,612)	(3,945)	257,808	3,945
Shares held by a subsidiary company and fractional shares cancelled on combination with Hiram Walker-Gooderham & Worts Limited			(154,802)	(234)
Issued on exercise of stock options, for cash	143,907	3,597	9,160	110
Balance September 30, 1980	14,610,187	361,588	68,899,823	151,132
Issued for cash	4,000,000	100,000		
Conversion of preference to common	(200,433)	(4,433)	229,669	4,433
Issued on exercise of stock options, for cash	92,685	2,316	78,380	2,414
Balance September 30, 1981	18,502,439	$459,471	69,207,872	$157,979

11. Stock Options

Under the terms of a Share Option Plan, adopted on October 1, 1980, 4,136,850 common shares have been reserved for issuance to certain key employees. At September 30, 1981, 3,191,350 common shares remain available to be granted under the plan. During the year ended September 30, 1981, options were granted for 1,043,500 shares under the plan at prices varying from $21.60 per share to $36.27 per share. Of the options granted, 65,000 shares were issued and options for 98,000 shares were cancelled. At September 30, 1981, options were outstanding for 880,500 shares.

Hiram Walker-Gooderham & Worts Limited has a stock option plan for certain key employees. Shares of the Company are purchased by Trustees on the open market to satisfy the outstanding options. Options outstanding are exercisable at various dates to 1989 at prices ranging from $9.64 to $18.89 per share. At September 30, 1981, options were outstanding for 224,943 shares. During the year ended September 30, 1981, options for 196,257 shares were exercised and options for 6,023 shares were cancelled. The cost of shares held by the Trustees has been deducted from Shareholders' Equity in the consolidated balance sheet. Shares held by the Trustees at September 30, 1981 and 1980 amounted to 113,723 shares and 253,855 shares respectively.

At September 30, 1981, the Company is obligated to issue up to 160,410 of its 7½% Preference Shares in satisfaction of Home employees' stock options exercisable until 1989 at an average price of $14.44 per share. During the year ended September 30, 1981, 110,850 options were exercised for which the Company issued 91,169 shares and paid $492,025 in cash. Options for 26,671 shares were cancelled during the year.

The Consumers' Gas Company Ltd. has a stock option plan for certain key employees, expiring July 5, 1982. At September 30, 1981, options were outstanding on 15,810 common shares of the Company at $12.00 per share. During the year ended September 30, 1981, 13,380 shares were issued.

The following is a summary of changes in options outstanding for the above plans during the year ended September 30, 1981:

	Common Shares	7½% Preference Shares
Shares under option at October 1, 1980	456,413	297,931
Options granted	1,043,500	—
Options exercised	(274,637)	(110,850)
Options cancelled	(104,023)	(26,671)
Shares under option September 30, 1981	1,121,253	160,410

12. Pension Plans

Pension expense during the three years ended September 30, amounted to $20,141,000 in 1981, $19,611,000 in 1980 and $15,769,000 in 1979. Unfunded prior years' service costs are not significant.

13. Income Taxes

The components of income before income taxes and other items are as follows:

	Year ended September 30		
	1981	1980	1979
Income before income taxes and other items			
Canada	**$144,643**	$143,622	$ 96,122
United States	**48,423**	130,731	69,189
Other (principally Europe)	**102,700**	97,388	94,828
	$295,766	$371,741	$260,139
Current income taxes			
Canada	**$ 33,744**	$ 23,897	$ 28,186
United States	**(4,078)**	57,739	40,050
Other (principally Europe)	**33,165**	8,887	15,132
	62,831	90,523	83,368
Deferred income taxes			
Canada	**23,834**	20,333	1,541
United States	**25,362**	4,084	(114)
United Kingdom – stock appreciation relief	**(37,042)**	—	—
Other (principally Europe)	**(13,329)**	15,982	8,571
	(1,175)	40,399	9,998
Total income tax expense	**$ 61,656**	$130,922	$ 93,366

Deferred income taxes result from timing differences in the recognition of revenues and expenses for financial statement and income tax purposes. The source of these differences and the tax effect of each are as follows:

	Year ended September 30		
	1981	1980	1979
Exploration and development expenditures deducted for income tax purposes in excess of depletion	**$36,116**	$ 21,016	$ 4,061
Capital cost allowances deducted for income tax purposes in excess of depreciation	**12,097**	11,383	1,460
Stock appreciation relief – United Kingdom			
– pre 1981 legislative change	**(6,158)**	7,751	5,016
– post 1981 legislative change	**(37,042)**	—	—
Interest capitalized in accounts, expensed for tax purposes	**5,077**	—	—
Other	**(11,265)**	249	(539)
	$ (1,175)	$ 40,399	$ 9,998

Excluded from the above amounts are deferred income taxes of $13,000,000 in 1981, $13,700,000 in 1980 and $9,200,000 in 1979 and an accumulated amount of $149,000,000 at September 30, 1981, applicable to the gas utility operations, which are not recorded in the accounts for reasons described in the Summary of Significant Accounting Policies on page 23. These deferred income taxes are primarily based on timing differences between capital cost allowance and depreciation.

Under the terms of legislation enacted in the United Kingdom in July, 1981, deferred income taxes previously provided in respect of stock appreciation relief no longer represent a potential liability on a going concern basis. Accordingly, an amount of $37,042,000, which represented the balance of such deferred income taxes accrued at June 30, 1981 ($43,200,000 at September 30, 1980) was credited to income in the third quarter of this year.

Income tax expense differs from the amounts which would be obtained by applying the Canadian statutory federal income tax rate to income before income taxes and other items. These differences result from the following:

	Year ended September 30		
	1981	1980	1979
Income before income taxes and other items	**$295,766**	$371,741	$260,139
Canadian expected income tax rate	**46.0%**	46.0%	46.0%
Computed income tax expense	**$136,052**	$171,000	$119,664
Release of prior years' deferred income taxes relating to United Kingdom stock appreciation relief			
– pre 1981 legislative change	**(6,158)**	(7,751)	(5,016)
– post 1981 legislative change	**(37,042)**	—	—
Royalties and other similar payments to provincial governments not deductible for tax purposes	**38,884**	28,717	—
Petroleum and Gas Revenue Tax not deductible for tax purposes	**6,603**	—	—
Federal resource allowance	**(27,546)**	(19,974)	—
Depletion allowances on Canadian oil and gas production income	**(9,771)**	(13,862)	—
Non-deductible depletion	**6,350**	3,131	—
Items capitalized in gas utility accounts expensed for tax purposes for which no deferred taxes are provided	**(11,984)**	(12,326)	(8,691)
Difference in effective tax rates for foreign subsidiaries	**(18,156)**	(8,195)	(5,307)
Investment tax credits	**(6,957)**	(1,950)	—
Other	**(8,619)**	(7,868)	(7,284)
Actual income tax expense	**$ 61,656**	$130,922	$ 93,366
Actual income tax expense as a percentage of income before income taxes and other items	**20.8%**	35.2%	35.8%
– excluding 1981 stock appreciation relief ($37,042,000)	**33.4%**	35.2%	35.8%

14. Business Segments

The operations of the Company consist of three business segments: distilled spirits, natural resources and gas utility. Information for the natural resources segment is shown for the full year in 1981 and for nine months in 1980. Previously this segment was accounted for on an equity basis and was included in the identifiable assets of the gas utility segment.

Presented below are financial data by business segments and geographic areas for each of the three years ended September 30, 1981.

Business Segments	Year ended September 30 1981	1980	1979
Operating revenue			
Distilled spirits	**$1,434,952**	$1,417,175	$1,318,904
Natural resources	**349,386**	231,279	—
Gas utility	**1,093,862**	859,054	812,897
	$2,878,200	$2,507,508	$2,131,801
Operating income			
Distilled spirits	**$ 263,101**	$ 250,927	$ 228,435
Natural resources	**82,898**	92,074	—
Gas utility	**107,388**	90,706	94,346
Total before undernoted items	**453,387**	433,707	322,781
Interest	**(224,755)**	(117,907)	(75,071)
Income taxes	**(61,656)**	(130,922)	(93,366)
Equity and other income	**67,134**	65,851	22,891
Foreign currency translation gain (loss)	**24,540**	(5,195)	3,173
Minority interest	**(8,589)**	(6,012)	(3,244)
Net income	**$ 250,061**	$ 239,522	$ 177,164
Identifiable assets			
Distilled spirits	**$1,540,283**	$1,440,034	$1,296,861
Natural resources	**2,076,345**	1,100,380	—
Gas utility	**1,301,610**	1,070,246	1,150,586
	$4,918,238	$3,610,660	$2,447,447
Capital expenditures			
Distilled spirits	**$ 84,901**	$ 51,498	$ 32,021
Natural resources	**222,766(1)**	146,137	—
Gas utility	**96,131**	103,681	71,506
	$ 403,798	$ 301,316	$ 103,527
Depletion and depreciation			
Distilled spirits	**$ 21,158**	$ 21,360	$ 20,957
Natural resources	**112,388**	37,426	—
Gas utility	**32,416**	27,264	24,333
	$ 165,962	$ 86,050	$ 45,290

(1) Excludes the acquisition of natural resource properties from Davis Oil Company in the amount of $736,987,000.

Geographic areas	Year ended September 30 **1981**	1980	1979
Operating revenue			
Canada	**$1,524,003**	$1,226,641	$1,018,277
United States	**1,139,998**	1,076,904	913,831
Other (principally Europe)	**400,897**	377,567	337,272
Eliminations(1)	**(186,698)**	(173,604)	(137,579)
	$2,878,200	$2,507,508	$2,131,801
Operating income			
Canada	**$ 254,217**	$ 212,438	$ 125,282
United States	**104,146**	132,614	103,073
Other (principally Europe)	**100,011**	94,775	92,044
Eliminations	**(4,987)**	(6,120)	2,382
	$ 453,387	$ 433,707	$ 322,781
Identifiable assets			
Canada	**$2,540,925**	$2,289,181	$1,500,811
United States	**1,578,916**	627,091	340,544
Other (principally Europe)	**811,711**	705,276	614,232
Eliminations	**(13,314)**	(10,888)	(8,140)
	$4,918,238	$3,610,660	$2,447,447
Capital expenditures			
Canada	**$ 179,160**	$ 190,769	$ 84,071
United States	**178,473**	84,560	6,456
Other (principally Europe)	**46,165**	25,987	13,000
	$ 403,798	$ 301,316	$ 103,527
Depletion and depreciation			
Canada	**$ 83,570**	$ 63,108	$ 31,797
United States	**74,467**	14,648	7,806
Other (principally Europe)	**7,925**	8,294	5,687
	$ 165,962	$ 86,050	$ 45,290

(1) Inter-company sales between geographic areas are at approximate market prices.

15. Oil and Gas Exploration and Production Activities
The Company's oil and gas exploration activities are carried out principally in Canada and the United States and internationally in Australia, Guyana and other areas while producing activities are currently concentrated in Western Canada and the United States.

Information is shown for the full year in 1981 and for nine months in 1980. Previously these activities were accounted for on the equity basis as described in note 2.

(a) Capitalized costs	1981	1980
Petroleum and natural gas properties		
Canada	**$ 846,053**	$767,277
United States	**1,003,013**	154,943
Other	**21,994**	5,513
	1,871,060	927,733
Accumulated depletion and depreciation		
Canada	**66,571**	25,701
United States	**67,970**	6,852
Other	**130**	151
	134,671	32,704
Net book value		
Canada	**779,482**	741,576
United States	**935,043**	148,091
Other	**21,864**	5,362
	$1,736,389	$895,029

(b) Costs incurred	1981	1980
Acquisition of proved properties		
United States	**$ 437,538**	$ —
Acquisition of unproved properties		
Canada	**$ 5,246**	$ 9,201
United States	**318,826**	2,964
	$ 324,072	$ 12,165
Exploration costs		
Canada	**$ 28,920**	$ 39,221
United States	**41,841**	9,221
Other	**16,471**	4,615
	$ 87,232	$ 53,057
Development costs		
Canada	**$ 46,292**	$ 41,572
United States	**52,165**	35,900
Other	**11**	—
	$ 98,468	$ 77,472
Production (lifting) costs		
Canada	**$ 33,774**	$ 18,886
United States	**12,629**	2,981
	$ 46,403	$ 21,867

Exploration and development costs are shown net of applicable government grants amounting to $16,205,000 for the year ended September 30, 1981 ($1,770,000 for the nine months ended September 30, 1980).

(c) Net revenues from production of oil and gas

	1981	1980
Gross revenues, net of royalties		
Canada	**$192,361**	$130,989
United States	**74,201**	17,041
	266,562	148,030
Production (lifting) costs		
Canada	**33,774**	18,886
United States	**12,629**	2,981
	46,403	21,867
Petroleum and Gas Revenue Tax – Canada	**13,460**	—
Net revenues from oil and gas producing activities		
Canada	**145,127**	112,103
United States	**61,572**	14,060
	$206,699	$126,163

(d) Depletion and depreciation

	1981	1980
Depletion and depreciation expense		
Canada	**$ 41,061**	$ 26,047
United States	**60,867**	6,852
	$101,928	$ 32,899
Average depletion and depreciation rate per equivalent barrel of oil produced		
Canada	**$ 2.46**	$ 1.95
United States	**$ 17.82**	$ 6.11

16. Subsequent Events

(a) A subsidiary of Walker-Home Oil Ltd., issued subsequent to its year end $65,000,000 U.S. ($78,116,000 Cdn.) principal amount of 15¾% Guaranteed Notes maturing September 17, 1984.

(b) The Company issued on October 26, 1981, 2,000,000 14.16% Retractable Preference Shares at $25 per share.

(c) A subsidiary of the Company, The Consumers' Gas Company Ltd., has agreed to issue on November 30, 1981, $65,000,000 principal amount of 17¾% Sinking Fund Debentures.

17. Supplementary Information

The Company has security holders resident in the United States and uses capital markets in that country. Supplementary information that is in conformity with the reporting practices of companies in the United States is included on pages 38 to 42.

United States Accounting Principles

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. These principles differ in some respects from those applicable in the United States. These differences are as follows:

(a) Basic net income per common share

The calculation of basic net income per share under United States generally accepted accounting principles would include the common stock equivalent of the 7½% Convertible Voting Preference Shares and any outstanding stock options granted where the average price for the year exceeds the option price. Since the 9½% Convertible Preference Shares and Common Share Purchase Warrants were not issued until September 30, 1981, their common stock equivalents had no impact on the 1981 calculation.

	Year ended September 30		
	1981	1980	1979
Basic net income per common share			
Canadian basis	**$3.23**	$3.18	$2.56
United States basis	**$3.05**	$3.04	$2.56

(b) Foreign currency translation

The Company follows the practice of translating long term debt obligations, net of current maturities fixed in foreign currencies, at exchange rates applicable when the original obligations were assumed. Under accounting principles generally accepted in the United States such obligations would be translated into Canadian dollars at rates in effect at the balance sheet dates and the resultant gain or loss would be included in the determination of net income. If United States generally accepted accounting principles were followed by the Company in respect of long term debt obligations, net income and basic and fully diluted net income per share would be as follows:

	Year ended September 30		
	1981	1980	1979
Net income as reported	**$250,061**	$239,522	$177,164
Foreign currency translation	**19,391**	3,715	748
Net income on a United States basis	**$269,452**	$243,237	$177,912
Net income per common share			
Basic			
Canadian basis	**$ 3.23**	$ 3.18	$ 2.56
United States basis	**$ 3.51**	$ 3.24	$ 2.57
Fully diluted			
Canadian basis	**$ 3.02**	$ 3.01	$ 2.52
United States basis	**$ 3.25**	$ 3.05	$ 2.53

In addition, reported retained earnings would increase by $15,758,000 to $1,222,096,000 at September 30, 1981 and decrease by $3,633,000 to $1,076,342,000 at September 30, 1980.

(c) Pension plans

Under United States generally accepted accounting principles, additional information, as set out below, available only in respect of the Company's United States pension plans, would be disclosed. The data is based upon reports of independent consulting actuaries, as of the most recent valuation dates (generally January 1 of each year), on the Company's United States pension plans which cover substantially all of the employees in the United States.

	1981	1980
Actuarial present value of accumulated plan benefits of which $76,047,000 (1980 $77,516,000) are vested	**$ 81,100**	$ 83,731
Net assets available for benefits	**$138,040**	$113,527
Assumed weighted average interest rate used in calculating plan benefits	**9.0%**	8.0%

(d) Preference shares

Under United States generally accepted accounting principles preference shares subject to mandatory redemption requirements would be reported under a separate caption "Redeemable Preference Shares" rather than under the general heading "Shareholders' Equity" in the consolidated balance sheet.

Oil and Gas Exploration and Production Activities (unaudited)

(a) Crude oil and natural gas reserves

Year ended September 30, 1981	Canada		United States		Total	
	Oil(1)	Gas(2)	Oil(1)	Gas(2)	Oil(1)	Gas(2)
Proved reserves						
Beginning of year	118,516	896	1,142	42	119,658	938
Revisions of previous estimates and improved recovery	7,940	56	677	9	8,617	65
Purchase of minerals in place	—	—	10,780	116	10,780	116
Discoveries and extensions	1,021	36	1,718	7	2,739	43
Production	(10,186)	(39)	(990)	(15)	(11,176)	(54)
End of year	117,291	949	13,327	159	130,618	1,108
Proved developed reserves at end of year	117,291	949	12,557	140	129,848	1,089
Average royalty rates applicable to production	34.1%	27.8%	14.0%	15.2%		

Nine months ended September 30, 1980	Canada		United States		Total	
	Oil(1)	Gas(2)	Oil(1)	Gas(2)	Oil(1)	Gas(2)
Proved reserves						
Beginning of period	121,867	902	719	38	122,586	940
Revisions of previous estimates and improved recovery	4,803	12	491	5	5,294	17
Purchase of minerals in place	—	—	—	—	—	—
Discoveries and extensions	8	12	127	5	135	17
Production	(8,162)	(30)	(195)	(6)	(8,357)	(36)
End of period	118,516	896	1,142	42	119,658	938
Proved developed reserves at end of period	117,845	617	1,087	40	118,932	657
Average royalty rates applicable to production	35.9%	29.3%	17.9%	16.1%		

(1) Oil includes condensate and natural gas liquids and is stated in thousands of barrels.

(2) Gas is stated in billions of cubic feet.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under economic and operating conditions at September 30 of each period end.

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

The calculation of reserves of crude oil, natural gas and natural gas liquids is based on the Company's share of gross proved and proved developed reserves, before the deduction of royalties and minority interests, as estimated by company engineers.

(b) Estimated future net revenues

Estimated future net revenues are computed by applying the year end prices except for fixed and determinable escalation provisions in contracts of crude oil, including condensate and natural gas liquids, and natural gas to the estimated future production of proved oil and gas reserves less the estimated future expenditures based on current costs to be incurred in developing and producing the proved reserves. In respect of Canadian proved oil and gas reserves, the estimated future net revenues are computed net of the Petroleum and Gas Revenue Tax introduced by the Federal government, effective January 1, 1981.

The Company cautions that the calculation of the present value of future net revenues from estimated production of proved reserves does not represent the fair market value of oil and gas properties nor future cash flows expected to be generated from such properties. The computation does not include the fair market value of exploratory oil and gas properties and probable oil and gas reserves. Neither does it include anticipated future price increases of oil and natural gas and anticipated increases in future development and production costs. The computation excludes values attributable to the Company's marketing, storage, pipeline and other activities related to oil and gas production operations.

	Proved reserves			Proved developed reserves		
	Canada	United States	Total	Canada	United States	Total
Estimated future net revenues for the years ended September 30						
1982	$ 137,899	$ 111,970	$ 249,869	$ 137,899	$ 109,701	$ 247,600
1983	114,377	95,089	209,466	114,377	90,516	204,893
1984	100,808	73,620	174,428	100,808	70,403	171,211
Remainder	1,688,137	380,602	2,068,739	1,688,137	352,800	2,040,937
	$2,041,221	$ 661,281	$2,702,502	$2,041,221	$ 623,420	$2,664,641
Present value of estimated future net revenues discounted at 10%						
As of September 30, 1981	$ 882,295	$ 421,225	$1,303,520	$ 882,295	$ 399,050	$1,281,345
As of September 30, 1980	$1,063,435	$ 87,945	$1,151,380	$ 915,086	$ 83,716	$ 998,802

(c) Summary of changes in present value of estimated future net revenues and related reserve recognition accounting

The tables below show a Summary of Oil and Gas Producing Activities on the Basis of Reserve Recognition Accounting (RRA) and a Statement of Changes in Present Value of Estimated Future Net Revenues from Proved Oil and Gas Reserves. RRA presents a significant departure from the conventional historical accounting principles generally accepted in Canada and the United States. Under RRA, a dollar valuation of proved oil and gas reserves is computed as described under "Estimated future net revenues". The RRA Summary of Oil and Gas Producing Activities is intended to present the results of such activities on the basis of new discoveries, revisions to prior years' estimates of proved reserves and certain other items. The statement of changes seeks to reflect changes in present value of estimated future net revenues from proved oil and gas reserves. The Company does not believe that RRA statements accurately reflect the economic value of oil and gas reserves or the income to be derived therefrom.

The present value of additions to estimated proved reserves reflects the additions to proved reserves from development and exploratory drilling and through improved recovery techniques valued under the procedures described above. Changes in prices resulted in a reduction in value of those proved reserves under RRA by $19 million for the year ended September 30, 1981, mainly resulting from the reduction in net prices for natural gas and higher lifting costs. Increases in crude oil and natural gas prices resulted in an increase in value of those proved reserves under RRA by $260 million for the nine months ended September 30, 1980.

Other revisions to present value of estimated proved reserves arise mainly from changes in estimates of future development costs, changes in the timing of estimated future production and revisions to quantities of proved reserves determined in prior years. The use of discounting in arriving at present values of reserves results in an increase in the value of proved oil and gas reserves by $130 million and $70 million during the year ended September 30, 1981 and nine months ended September 30, 1980, respectively. The introduction of the Petroleum and Gas Revenue Tax, effective January 1, 1981, by the Canadian Federal Government as part of The National Energy Program has reduced the present value of proved reserves determined in prior years by approximately $185 million.

The deduction for costs incurred, including costs of acquiring unproved properties, costs of drilling exploratory and development wells, geological and geophysical costs, and costs of carrying and retaining undeveloped properties, exclude certain costs which are deferred pending evaluation. Also excluded are development costs which were previously considered in the RRA valuation. Such deferred costs totalled $569 million and $233 million at September 30, 1981 and 1980 respectively and principally represent property acquisition costs of $491 million and $167 million of which $324 million and $12 million were added during the year ended September 30, 1981 and nine months ended September 30, 1980, respectively. At September 30, 1981, a valuation allowance of $52 million had been recorded against these costs of which $30 million and $22 million were added during the year ended September 30, 1981 and nine months ended September 30, 1980, respectively.

The bulk of the increase in the deferred property acquisition cost during 1981 reflects the acquisition of properties from Davis Oil Company completed in March, 1981. Additional deferred costs of $78 million and $66 million at September 30, 1981, and 1980, respectively pertain to costs of uncompleted wells pending evaluation.

The accounting rules of the United States Securities and Exchange Commission (the "SEC") contain a capitalized cost limitation for each cost centre (the "cost centre ceiling") in which, among other things, capitalized costs associated with proved oil and gas reserves are limited to the present value of future net revenues from estimated production of

such reserves computed pursuant to SEC rules. The acquisition of oil and gas properties in the United States during March, 1981, from Davis Oil involved the purchase of proved oil and gas reserves at a price which exceeded the present value of estimated future net revenues computed as described above under "Estimated future net revenues" by $147 million which has been deferred at September 30, 1981. This excess would have caused the capitalized costs associated with the Company's United States full-cost pool at September 30, 1981, to exceed the SEC's cost centre ceiling by approximately $125 million, requiring a charge to income in that amount for United States reporting purposes. However, pursuant to an exemption procedure established by the SEC for major transactions such as the acquisition of the Davis properties, the Company applied for and was granted an exemption from the application of the cost centre ceiling for the year ended September 30, 1981 and for subsequent interim periods ending through June, 1982, assuming there is no indication of impairment of value during such period.

In accordance with this exemption, the amount of the excess over the SEC cost centre ceiling described above has been capitalized. The continued existence of any such excess after June 30, 1982, will require a further exemption from the SEC. In the event such a further exemption cannot be obtained, or in the event that the Company determines that an impairment of value has occurred, any excess of capitalized costs over the SEC cost centre ceiling then existing would be required to be charged against income for United States reporting purposes.

The provision for income taxes has been computed applying current statutory tax rates to the future taxable income to be generated from proved reserves after making provision for the tax basis of the oil and gas properties and after giving effect to the applicable tax credits and rebates, deductions for resource and depletion allowances and provisions for non-allowable crown royalties and other permanent differences.

Summary of oil and gas producing activities prepared on the basis of reserve recognition accounting (RRA) (unaudited)

	Year ended September 30, 1981	Nine months ended September 30, 1980
Additions and revisions to estimated proved reserves		
Present value of additions to estimated proved reserves	**$ 57,853**	$ 17,506
Present value of revisions to estimated reserves proved in prior years		
Changes in prices, net of changes in lifting costs	**(19,455)**	260,149
Petroleum and Gas Revenue Tax	**(184,945)**	—
Other changes	**58,294**	(39,422)
Accretion of discount	**129,651**	70,061
	41,398	308,294
Deductions for costs incurred	**176,585**	95,396
RRA income (loss) before income taxes	**(135,187)**	212,898
Income taxes	**42,992**	100,126
Net income (loss) from oil and gas producing activities on the basis of RRA	**$ (178,179)**	$ 112,772
Pre-tax operating income (excluding interest) from operations for oil and gas activities on the basis reported in the primary financial statements	**$ 85,377**	$ 76,805

Summary of changes in present value of estimated future net revenues from proved oil and gas reserves (unaudited)

	Year ended September 30, 1981	Nine months ended September 30, 1980
Balance at beginning of period	**$1,151,380**	$ 934,151
Additions and revisions	**41,398**	308,294
Purchase of minerals in place	**290,230**	—
Projected development costs incurred	**27,211**	35,098
Production, net of lifting costs and Petroleum and Gas Revenue Tax	**(206,699)**	(126,163)
Balance at end of period	**$1,303,520**	$1,151,380

Quarterly Financial Information (unaudited)

	Year ended September 30							
	1981				1980			
	Quarter							
	First	**Second**	**Third**	**Fourth**	First	Second	Third	Fourth
Revenue	**$807,748**	**$851,110**	**$692,505**	**$593,971**	$661,001	$756,802	$615,701	$529,945
Gross margin	**279,278**	**265,982**	**249,927**	**244,200**	212,419	248,676	218,476	202,227
Net income	**93,643**	**68,969**	**67,847**	**19,602**	67,899	63,980	57,405	50,238
Net income per common share								
Basic	**$ 1.26**	**$ 0.90**	**$ 0.88**	**$ 0.19**	$ 0.99	$ 0.83	$ 0.73	$ 0.63
Fully diluted	**1.13**	**0.83**	**0.82**	**0.19**	0.95	0.77	0.69	0.60

Market Price of Common Shares and Related Security Holder Matters

The common shares of the Company are listed on the Toronto, New York, Montreal, Alberta and Vancouver stock exchanges. The following table sets forth the reported high and low sales prices of the common shares of the Company on the Toronto and New York stock exchanges:

	Year ended September 30							
	1981				1980			
	Quarter							
	First	**Second**	**Third**	**Fourth**	First	Second	Third	Fourth
Toronto Stock Exchange (Canadian currency)								
High	**$35¾**	**$31¾**	**$35½**	**$35⅜**	*	*	$29⅛	$34¼
Low	**29⅞**	**26**	**24⅞**	**20⅜**	*	*	23⅜	26½
New York Stock Exchange (United States currency)								
High	**30¾**	**26⅝**	**29⅜**	**29⅜**	*	*	28⅝	29¼
Low	**25**	**22**	**20½**	**17⅜**	*	*	19⅞	22⅞

*Share price information prior to April 30, 1980, is not comparable to that of subsequent periods because that information predates the combination of the resources of Hiram Walker-Gooderham & Worts Limited and The Consumers' Gas Company and its subsidiary Home Oil Company Limited.

Quarterly dividends of $0.33 per common share were paid in 1981 and 1980.

At September 30, 1981, there were 52,253 registered holders of common shares.

There are no restrictions on the export or import of capital which affect the remittance of dividends, interest or other payments to non-resident holders of the Company's securities.

The Foreign Investment Review Act requires prior approval by the Government of Canada of the acquisition by, or transfer to, non-residents of Canada of direct or indirect control of a Canadian business entity, such as the Company. The Act does not apply to the purchase of shares or securities of a corporation where such purchases would not give the purchasers effective control of the corporation.

Cash dividends paid to shareholders resident in the United States, the United Kingdom and most Western European countries are generally subject to Canadian withholding tax at a rate of 15%. Cash dividends paid to other non-residents of Canada will also generally be subject to Canadian withholding tax at a maximum rate of 25%, depending upon applicable tax treaties. Interest payable on the Company's debt securities held by non-Canadian persons may also be subject to Canadian withholding tax depending upon the terms and provisions of such securities. Stock dividends paid to non-Canadian residents are generally not subject to Canadian withholding tax.

Five year financial review and other data

Financial

	1981	1980	1979	1978	1977
	(Expressed in thousands except per share amounts)				
Revenue					
Distilled spirits	**$1,434,952**	$1,417,175	$1,318,904	$1,129,107	$ 898,402
Natural resources	**349,386**	231,279	—	—	—
Gas utility	**1,093,862**	859,054	812,897	737,400	644,764
Other	**67,134**	55,941	12,429	25,714	13,560
	$2,945,334	$2,563,449	$2,144,230	$1,892,221	$1,556,726
Operating income					
Distilled spirits	**$ 263,101**	$ 250,927	$ 228,435	$ 179,394	$ 126,946
Natural resources	**82,898**	92,074	—	—	—
Gas utility	**107,388**	90,706	94,346	89,066	85,027
	$ 453,387	$ 433,707	$ 322,781	$ 268,460	$ 211,973
Income before income taxes and other items	**$ 295,766**	$ 371,741	$ 260,139	$ 235,258	$ 171,761
Income taxes	**(61,656)**	(130,922)	(93,366)	(99,206)	(80,133)
Other items, net	**15,951**	(1,297)	10,391	18,326	22,782
Net income	**$ 250,061**	$ 239,522	$ 177,164	$ 154,378	$ 114,410
Net income per common share					
Basic	**$ 3.23**	$ 3.18	$ 2.56	$ 2.23	$ 1.64
Fully diluted	**$ 3.02**	$ 3.01	$ 2.52	$ 2.19	$ 1.62
Dividends declared per common share	**$ 1.32**	$ 1.32	$ 0.88	$ 0.76	$ 0.71
Identifiable assets					
Distilled spirits	**$1,540,283**	$1,440,034	$1,296,861	$1,130,161	$ 995,548
Natural resources	**2,076,345**	1,100,380	—	—	—
Gas utility	**1,301,610**	1,070,246	1,150,586	1,013,099	915,157
Total assets	**$4,918,238**	$3,610,660	$2,447,447	$2,143,260	$1,910,705
Long term debt (including current portion)	**$1,753,370**	$ 742,466	$ 556,636	$ 477,478	$ 496,610
Shareholders' equity					
Preference	**$ 459,471**	$ 361,588	$ 18,444	$ 22,647	$ 22,653
Common	**1,362,300**	1,227,331	1,098,978	985,890	886,257
	$1,821,771	$1,588,919	$1,117,422	$1,008,537	$ 908,910

Distilled Spirits	**1981**	1980	1979	1978	1977
Gross revenue less excise taxes and import duties (millions of dollars)	**$1,068**	$1,008	$ 905	$ 764	$ 586

Natural Resources

Crude oil and natural gas liquids production* (barrels per day)	**32,370**	31,053	30,863	31,312	34,033
Natural gas sales* (millions of cubic feet per day)	**165.8**	129.9	136.3	118.3	117.7
Sulphur sales (long tons)	**71,100**	85,922	70,485	56,877	60,066

* Includes production from properties acquired from Davis Oil since date of acquisition on March 11, 1981.

Land Holdings

The following table sets forth the acreage in which Home held petroleum and natural gas interests at September 30, 1981. Gross acres refers to the total acreage in which an interest is held or may be earned under farmin agreements. Net acres refers to the total acreage in each parcel in which only a working interest is held, or can be earned, multiplied by the percentage working interest owned or to be owned.

	Gross	Net
Canada		
Alberta	5,312,438	1,759,151
British Columbia	1,746,676	412,684
Newfoundland	5,646,178	283,990
Saskatchewan	850,546	763,002
Arctic Islands	6,009,906	489,358
East Coast Offshore	2,010,081	150,756
Other	1,797,230	437,173
	23,373,055	4,296,114
United States		
Alaska	138,239	113,268
Arizona	170,964	170,964
Montana	922,563	532,700
North Dakota	496,069	219,546
Texas	232,109	92,702
Wyoming	1,116,727	366,826
Other	580,022	344,233
	3,656,693	1,840,239
Australia[1]	6,292,063	1,447,057
Guyana	1,971,200	1,419,264
Indonesia	3,930,880	76,652
Philippines	1,541,937	385,484
Other	448,057	41,199
Total	41,213,885	9,506,009

1. Includes farmin on permit WA-117P representing 4,700,000 gross (1,175,000 net) acres offshore Australia to which partners have agreed in principle. At September 30, 1981, a formal agreement had yet to be signed.

Working Interest Wells

The following table sets forth the gross and net exploratory and development wells in which Home participated and completed during the year ended September 30, 1981. Gross wells refers to the number of wells in which Home has an interest. Net wells refers to the aggregate of the amounts for each gross well multiplied by the percentage of Home's working interest. Wells in which Home does not have a working interest are excluded.

	Canada		United States		International	
	Gross	Net	Gross	Net	Gross	Net
Exploratory						
Oil	2	.76	5	3.50	2	.29
Gas	11	3.01	2	.15	—	—
Dry	8	3.85	16	6.23	5	.67
	21	7.62	23	9.88	7	.96
Development						
Oil	76	24.84	40	18.60	—	—
Gas	58	13.76	22	6.29	—	—
Dry	37	20.31	23	9.40	—	—
	171	58.91	85	34.29	—	—
Total	192	66.53	108	44.17	7	.96

Production of Crude Oil and Liquids, Natural Gas and Sulphur

The following table sets forth Home's total and daily average gross production of crude oil and natural gas liquids and gross sales of natural gas and sulphur for the year ended September 30, 1981. Gross production or gross sales include all production or sales attributable to Home's interests before royalties and minority interests in subsidiaries. Daily average for the United States includes production from properties acquired from Davis Oil since the date of acquisition on March 11, 1981.

Crude oil (thousands of barrels)	
Canada	
Alberta	6,997
British Columbia	1,368
Saskatchewan	767
Other	47
United States	731
Total	9,910
Daily average (barrels)	
Canada	25,153
United States	3,689
Total	28,842
Natural gas liquids (thousands of barrels)	
Canada	
Alberta	999
Other	8
United States	259
Total	1,266
Daily average (barrels)	
Canada	2,755
United States	773
Total	3,528
Natural gas (millions of cubic feet)	
Canada	
Alberta	36,467
British Columbia	2,246
Other	160
United States	14,560
Total	53,433
Daily average (thousands of cubic feet)	
Canada	106,517
United States	59,280
Total	165,797
Sulphur (long tons)	71,100

Gas utility

	1981	1980	1979	1978	1977
Revenue (thousands of dollars)					
Gas sales					
Residential	**$ 342,618**	$261,112	$234,422	$212,663	$180,373
Commercial	**370,601**	283,408	260,264	232,797	200,603
Industrial	**342,399**	269,015	245,110	214,233	171,533
Thermal generation	**1,214**	14,412	46,702	55,549	74,167
Total gas sales	**1,056,832**	827,947	786,498	715,242	626,676
Other revenue	**48,553**	37,928	34,803	29,245	24,774
Total revenue	**$1,105,385**	$865,875	$821,301	$744,487	$651,450
Gas cost	**$ 851,025**	$654,845	$622,439	$558,506	$479,646
Gas sales (millions of cubic feet)					
Sales to customers					
Residential	**81,121**	73,756	73,519	74,174	73,265
Commercial	**109,205**	101,663	101,156	101,431	101,407
Industrial	**106,148**	105,077	107,565	104,330	98,098
Thermal generation	**387**	5,560	21,356	29,640	45,894
Total sales	**296,861**	286,056	303,596	309,575	318,664
Number of active customers (year end)					
Residential	**611,823**	568,984	530,636	504,725	483,143
Commercial	**60,041**	55,590	51,555	48,139	45,951
Industrial and other	**6,415**	6,173	5,987	5,734	5,734
Total active customers	**678,279**	630,747	588,178	558,598	534,828
Average use per residential customer (thousands of cubic feet)	**134.1**	130.4	137.8	145.4	150.3
Degree day deficiency (1)	**4,202**	4,040	4,246	4,434	4,355

Note:
(1) Degree day deficiency figures given, expressed in Celsius, are those for the Toronto Area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees by which the daily mean temperature fell below 18° Celsius (65°F.).

Hiram Walker Resources Ltd.

Directors

Dr. G. C. A. Cook
Economic Consultant

Richard E. Cross(3)
Counsel
Cross, Wrock, Miller & Vieson

A. E. Downing(1)
Executive Vice President of the Company
President
Hiram Walker-Gooderham & Worts Limited

Charles T. Fisher III(1)
President
National Bank of Detroit

Jon K. Grant(3)
President and Chief Executive Officer
The Quaker Oats Company of Canada Limited

Gordon C. Gray(2)
Chairman and Chief Executive Officer
A. E. LePage Limited

Anthony G. S. Griffin
Corporate Director

H. Clifford Hatch(1)
Chairman of the Company

H. Clifford Hatch, Jr.(1)
Executive Vice President of the Company
Vice President
Hiram Walker-Gooderham & Worts Limited

Senator Harry W. Hays, P.C.
Member of the Senate of Canada

Robert S. Hurlbut(1)
Chairman and President
General Foods, Inc.

Henry N. R. Jackman(4)
Chairman
The Empire Life Insurance Co.

G. Ernest Jackson
Senior Vice President
Reed Stenhouse Limited

Joseph Jeffery, Q.C.(2)
Partner
Jeffery and Jeffery

Paul J. G. Kidd, Q.C.(4)
Retired
Formerly Senior Vice President
Hiram Walker-Gooderham & Worts Limited

Allen T. Lambert(1)(4)
Director and former Chairman
and Chief Executive Officer
The Toronto-Dominion Bank

Orian E. B. Low, Q.C.
Private Investor

Peter L. P. Macdonnell, Q.C.(3)(4)
Partner
Milner & Steer

Robert W. Martin(1)
Executive Vice President of the Company
President
The Consumers' Gas Company Ltd.

Frederick H. Newman
Chairman
Newman Bros. Limited

Edmond G. Odette(2)
President
Eastern Construction Company Limited

Stanley G. Olson(1)(3)
Corporate Director

Beryl A. Plumptre(4)
Corporate Director

A. Ross Poyntz(2)
Director and former Chairman
The Imperial Life Assurance Company of Canada

John T. Sapienza
Partner
Covington & Burling

Robert C. Scrivener(1)(3)
Corporate Director

Robert J. Tebbs
Retired
Formerly Senior Vice President
Hiram Walker-Gooderham & Worts Limited

Noah Torno(1)(3)
Corporate Director

W. P. Wilder(1)
President and Chief Executive Officer
of the Company

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1. Executive Committee
2. Audit Committee
3. Management Resources Committee
4. Pension Committee

Principal officers

H. Clifford Hatch, Chairman of the Board
W. P. Wilder, President and Chief Executive Officer
A. E. Downing, Executive Vice President
H. Clifford Hatch, Jr., Executive Vice President
Richard F. Haskayne*, Executive Vice President
Robert W. Martin, Executive Vice President
A. R. McCallum, Senior Vice President and Chief Financial Officer
B. F. MacNeill, Vice President and Treasurer
E. W. H. Tremain, Vice President and Secretary

*Effective January 1, 1982

Corporate information

Executive office

Suite 4200, 1 First Canadian Place
P.O. Box 90, Toronto, Ontario M5X 1C5
Telephone (416) 492-5900

Auditors

Price Waterhouse
Thorne Riddell

Stock exchange listings and symbol

Common Shares – Toronto, Montreal, Alberta, Vancouver, New York

The listing symbol for Hiram Walker Resources Ltd. common shares on all stock exchanges is **HWR** and is reported in the newspapers by Canadian exchanges under the W's as **Walker R**, and by United States exchanges under the W's as **WkHRs**.

Metric conversion factors

1 mile	= 1.609 kilometres
1 foot	= 0.305 metres
1 cubic foot	= 0.028 cubic metres (natural gas)
1 barrel	= 0.159 cubic metres (petroleum liquids)
1 acre	= 0.405 hectares

Form 10-K

The Company files a Form 10-K Annual Report with the United States Securities and Exchange Commission. A copy of this report will be made available, without charge, to interested shareholders upon written request to The Secretary, Hiram Walker Resources Ltd., Suite 4200, 1 First Canadian Place, P.O. Box 90, Toronto, Ontario, M5X 1C5.

Registrar and transfer agents

Common Shares

Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto M4R 2E2 and in Halifax, Montreal, Calgary and Vancouver

Morgan Guaranty Trust Company
New York

14.16% Retractable Class A Preference Shares

National Trust Company, Limited
21 King Street East, Toronto M5C 1B3 and in Montreal, Winnipeg, Calgary and Vancouver or its agent

The Royal Trust Company, in Halifax and Regina

9½% Convertible Class B Preference Shares

Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto M4R 2E2 and in Halifax, Montreal, Winnipeg, Regina, Calgary and Vancouver

9% Convertible Class C Preference Shares

The Canada Trust Company
110 Yonge Street, Toronto M5C 1T4 and in Halifax, Montreal, Calgary and Vancouver

7½% Convertible Class D Preference Shares

Canada Permanent Trust Company
20 Eglinton Avenue West, Toronto M4R 2E2 and in Halifax, Montreal, Winnipeg, Calgary and Vancouver

Principal subsidiaries

- **Hiram Walker-Gooderham & Worts Limited**
  - Hiram Walker & Sons Limited
  - Corby Distilleries Limited (52.8% owned)
  - Maidstone Essex Limited
    - Courvoisier S.A.
    - Kahlua S.A.
    - Hiram Walker Holdings N.V.
    - Walker Home Petroleum Inc.
      - Maidstone Wine & Spirits, Inc.
      - HPC, Inc.
        - Home Petroleum Corporation
      - Hiram Walker & Sons, Inc.
        - Hiram Walker Incorporated
        - W.A. Taylor & Company
  - Hiram Walker & Sons (Scotland) Limited
- **Home Oil Company Limited**
  - Home Exploration Limited
  - Home Oil Australia Limited
  - Home Oil (U.K.) Limited
  - Scurry-Rainbow Oil Limited (88.5% owned)
  - Federated Pipe Lines Ltd. (50% owned)
- **The Consumers' Gas Company Ltd.**
  - Niagara Gas Transmission Limited
  - St. Lawrence Gas Company, Inc.
  - Gazifere Inc.
  - Tecumseh Gas Storage Limited (50% owned)
  - Underwater Gas Developers Limited

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